Supreme Court, U.S.
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No. 10- 10-422

IN THE

Supreme Court of the United States

IN RE: EXIDE TECHNOLOGIES,

Debtor.

EXIDE TECHNOLOGIES,

Petitioner,

v.

ENERSYS DELAWARE, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

The Bankruptcy Code provides that a trustee or debtor in possession, "subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor." 11 U.S.C. § 365(a). The Code, however, does not define "executory contract."

The Sixth and Eleventh Circuits have adopted a functional test for executoriness. Under the "functional test," the court focuses on the obligations remaining and will permit the rejection of contracts that impose burdensome and disadvantageous obligations on the bankruptcy estate, and the assumption of contracts that include rights that are beneficial and advantageous to the estate.

Conversely, seven circuits, including the Third Circuit in the instant action, have adopted a test focusing, not on whether the contract has remaining obligations, but instead on whether the nonperformance of those obligations would constitute a material breach. Under this "material-breach" test, no matter how onerous the remaining obligations or beneficial the remaining rights, if the breach of one party's obligations would not excuse the other party's performance, then the contract is not executory and not subject to rejection or assumption under the Code.

The question presented is:

Whether a contract that imposes continuing obligations on both parties, and which includes obligations that are burdensome and disadvantageous to the estate, is an executory contract subject to rejection under section 365(a) of the Bankruptcy Code.

PARTIES TO THE PROCEEDING BELOW AND RULE 29.6 STATEMENT

The parties to the proceeding in the United States Court of Appeals for the Third Circuit were Exide Technologies (the Petitioner here), and EnerSys Delaware, Inc. (the Respondent).

Pursuant to this Court's Rule 29.6, undersigned counsel state that Exide Technologies has no parent corporation and no publicly held company owns 10% or more of the stock of Exide Technologies.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner Exide Technologies respectfully petitions this Court to issue a writ of certiorari to the United States Court of Appeals for the Third Circuit to review the judgment in this case.

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-21a) is reported at 607 F.3d 957. The opinion of the district court (Pet. App. 22a-26a) is unreported but available electronically at 2008 WL 522516. The opinion of the bankruptcy court (Pet. App. 27a-83a) is reported at 340 B.R. 222.

JURISDICTION

The judgment of the court of appeals was entered on June 1, 2010. A timely-filed petition for rehearing *en banc* was denied on June 29, 2010 (Pet. App. 84a-85a). The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Section 365(a) of the Bankruptcy Code provides in full:

> Except as provided in sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor.

11 U.S.C. § 365(a).

Section 1107(a), which extends this authority to a debtor in possession in a reorganization proceeding under Chapter 11 of the Code, provides in full:

> Subject to any limitations on a trustee serving in a case under this chapter, and to such limitations or conditions as the court prescribes, a debtor in possession shall have all the rights, other than the right to compensation under section 330 of this title, and powers, and shall perform all the functions and duties, except the duties specified in sections 1106(a)(2), (3), and (4) of this title, of a trustee serving in a case under this chapter.

Id. § 1107(a).

STATEMENT

1. The Bankruptcy Code permits trustees and debtors in possession to maximize the value of the bankruptcy estate by rejecting contracts that are onerous and burdensome, and by assuming contracts that are beneficial and advantageous. *See* 11 U.S.C. §§ 365(a), 1107(a). Congress, however, limited this important power to "executory contracts" without defining that term.

a. A contract may be beneficial to a debtor rehabilitating its affairs in bankruptcy, or it may be burdensome. When the cost imposed by a contract's obligations exceeds the value of the benefits that the bankruptcy estate derives from that contract, continued performance can be burdensome, and in the converse situation, continued performance can be beneficial. The power of rejection and assumption

maximizes the value of the estate by allowing the trustee or debtor in possession to reject contracts that would otherwise burden the estate, and to assume contracts that would otherwise benefit the estate.

b. The option of the trustee or debtor in possession to reject or assume an executory contract stems directly from the trustee's long-standing power to abandon obligations burdensome to the estate—a court-made doctrine. *See* Vern Countryman, *Executory Contracts in Bankruptcy: Part I*, 57 Minn. L. Rev. 439, 440, 450 (1973); *see also* 2 Collier on Bankruptcy ¶ 365.01[1] (15th ed. 1986). Indeed, more than forty years before this Court recognized that assignees in bankruptcy have the power to abandon "property of an onerous or unprofitable character," *Am. File Co.* v. *Garrett*, 110 U.S. 288, 295 (1884) (relying in part on English practice), courts in England had concluded that this power included the option to abandon "worthless or onerous . . . leases and other executory contracts." Countryman, *supra*, at 440 (footnotes omitted).

In the mid-1930's Congress codified this power, expressly "authorizing assumption or rejection of executory contracts, including unexpired leases, of the bankrupt or debtor." Countryman, *supra*, at 439; *see also id.* at 447-48. Today, this power resides in section 365 of the Code. *See* 11 U.S.C. § 365(a).

i. Rejection relieves the estate of the obligations of performing under an executory contract by treating the rejection as a pre-petition breach by the debtor. *See* 11 U.S.C. § 365(g). Although rejection does not eviscerate the underlying contract, the estate is

relieved of the full cost of performing the debtor's remaining obligations. Instead, the estate generally only bears a portion of that cost, because the liability stemming from the rejection is treated as an unsecured "claim," *id.* § 101(5), and the other party is generally precluded from seeking specific performance, *see id.* § 101(5)(B); *see also Ohio* v. *Kovaks*, 469 U.S. 274, 278-79 (1985). Moreover, unless an exception applies, the liability is discharged upon confirmation of the plan, *see, e.g.*, 11 U.S.C. § 1141(d).

ii. Assumption, on the other hand, requires the estate to take on the debtor's obligations under an executory contract, but it allows the estate to obtain the benefits of the other party's continued performance. Accordingly, the trustee or debtor in possession will assume a contract, and thereby maximize the value of the estate, when the rights under the contract are more valuable than the cost of satisfying the contract's remaining obligations. But before the estate can assume an executory contract, the trustee or debtor in possession must cure any default under the contract, 11 U.S.C. § 365(b), and the estate's ability to assume the contract is subject to other limitations not relevant here, *see, e.g.*, *id.* § 365(c), (d).

c. Although Congress codified (and has placed certain limits on) the power of a trustee or debtor in possession to reject or assume an executory contract, it has never defined that term. Instead, Congress recognized that there is "no precise definition" of which contracts are executory, but that term "generally includes contracts on which performance remains due to some extent on both sides." S. Rep. No. 95-989, at 58 (1978), *reprinted in* 1978 U.S.C.C.A.N.

5787, 5844; *accord* H.R. Rep. No. 95-595, at 347 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6303.

2. This case turns on whether a particular agreement is an executory contract within the meaning of the Bankruptcy Code. The Petitioner, Exide Technologies, is one of the world's largest producers and recyclers of lead-acid batteries. On April 15, 2002, Exide filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. Pet. App. 24a. Thereafter, Exide requested approval from the Bankruptcy Court to reject certain pre-petition contracts pursuant to section 365(a) of the Code, including a trademark license agreement, which permitted the Respondent, EnerSys Delaware, Inc., as the licensee, to use a trademark owned by Exide. Pet. App. 27a-30a. EnerSys opposed rejection, arguing, among other things, that the agreement was not an executory contract and, therefore, could not be rejected under section 365(a). *See* Pet. App. 27a-28a.

a. In June 1991, Exide sold substantially all of its industrial battery business to EnerSys, which was then known as Yuasa Battery (America), Inc. Pet. App. 28a-29a. As part of the transaction, the parties executed over twenty-three agreements, four of which collectively comprise the agreement at issue here (hereinafter, the "Agreement"). *Id.*[1]

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[1] The four agreements that collectively comprise the Agreement at issue here are: (1) the Trademark and Trade Name License Agreement, (2) the Asset Purchase Agreement, (3) the Administrative Services Agreement (each of which was dated June 10, 1991), and (4) a letter agreement (dated December 27, 1994). Pet. App. 28a-29a. The Bankruptcy Court found that these four agreements constituted a "fully integrated, un-

The assets that Exide sold to EnerSys as part of the transaction included physical manufacturing plants, equipment, and certain items of intellectual property, including certain specifically enumerated trademarks. Pet. App. 29a. In addition, certain Exide employees in the company's industrial battery division became EnerSys employees. *Id.*

Although Exide sold to EnerSys several specifically enumerated trademarks, it did not sell a mark related to its name, the EXIDE mark. Pet. App. 29a-30a. In fact, Exide expressly retained ownership, control, and possession of this mark, which it continued to use in connection with its ongoing battery businesses, including batteries for the transportation industry. *See id.*

Instead, as part of the Agreement, Exide contractually licensed to EnerSys the use of the EXIDE mark in specified areas of the industrial battery business, but the Agreement includes certain ongoing obligations. Pet. App. 30a. Specifically, EnerSys is obligated to: (1) refrain from using the EXIDE mark outside the industrial battery business; (2) maintain a minimum level of quality for its products that contain the mark; (3) indemnify Exide from and against certain costs, losses, liabilities, damages, lawsuits, and claims; and (4) cooperate with Exide after the closing of the Agreement to effectuate certain provisions contained therein. Pet. App. 34a-35a, 44a-53a. For its part, Exide continues to be obligated to: (1) refrain from suing EnerSys for trademark in-

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ambiguous document," Pet. App. 29a—a finding that neither party challenged in the Third Circuit. Pet. App. 4a.

fringement based on its use of the mark; (2) refrain from using the mark within specified parts of the industrial battery business; (3) maintain registrations of the mark; (4) make payments into a pension plan maintained for the benefit of the employees transferred under the Agreement; (5) indemnify EnerSys from and against certain costs, losses, liabilities, damages, lawsuits, and claims; and (6) cooperate with EnerSys after the closing of the Agreement to effectuate certain provisions contained therein. *Id.*

The Agreement also provides for termination in certain instances. Pet. App. 37a-39a. For example, Exide reserved the right to terminate the Agreement if EnerSys used the EXIDE mark outside the industrial battery business, or if EnerSys's products failed to satisfy the quality standards set forth in the Agreement. Pet. App. 38a. For the first nine years following the execution of the Agreement, both parties performed their respective, ongoing obligations arising out of the 1991 transaction without major dispute. Pet. App. 30a.

b. In 2000, Exide and EnerSys mutually agreed to the early termination of a ten-year non-compete agreement, thereby allowing Exide to re-enter the industrial battery business. Pet. App. 30a. Later that year, Exide purchased GNB Technologies Inc. (including GNB Industrial Battery Company) and returned to the North American industrial battery market in direct competition with EnerSys. *See id.*

Prior to and as Exide was poised to re-enter the industrial battery market—indeed, well before it filed for bankruptcy protection—Exide began a worldwide campaign to unify its image and brand

under a single mark. *Id.* Naturally, Exide wanted that mark to be EXIDE. *See id.*

c. When Exide filed for bankruptcy protection in 2002, it sought to reject a number of pre-petition contracts under section 365, including agreements relating to the EXIDE mark. Exide subsequently filed rejection notices for six pre-petition contracts, four of which comprise the Agreement at issue here. Pet. App. 27a-29a & n.3. EnerSys objected. Pet. App. 27a-28a.

3. a. The Bankruptcy Court, following eight days of hearings, issued an opinion and order approving Exide's rejection of the Agreement. Pet. App. 27a-83a.

i. The Bankruptcy Court explained that, "[i]n determining whether a contract is executory and, hence, subject to rejection, courts in [the Third] Circuit utilize the Countryman standard, which provides that a contract is executory when 'the obligations of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other.'" Pet. App. 32a (quoting Countryman, *supra*, at 460, and citing *Sharon Steel Corp.* v. *Nat'l Fuel Gas Distr. Corp.*, 872 F.2d 36, 39 (3d Cir. 1989)). The Bankruptcy Court then distilled this test to its essence — whether "'both parties have unperformed obligations that would constitute a material breach if not performed'" at the time the bankruptcy petition was filed. *Id.* (quoting *In re Columbia Gas Sys., Inc.*, 50 F.3d 233, 239 (3d Cir. 1995)). Finally, the Bankruptcy Court explained that, under the Third Cir-

cuit's approach, it must apply the law of the state that governs the contract—in this case, New York law—to determine "whether the Agreement contained any material obligations." Pet. App. 33a.

ii. Applying these standards, the Bankruptcy Court held that the Agreement was an executory contract, and Exide could reject it. Specifically, the court concluded that: (1) the Agreement imposed material obligations on both parties, the breach of which would excuse the other party's performance, Pet. App. 33a-39a, 44a-53a; (2) those obligations were duties, not conditions, under New York law, Pet. App. 39a-44a; and (3) because "both parties had a number of material obligations under the Agreement . . . and, therefore, could not have rendered substantial performance," the breach of the Agreement by either party would not have excused the other party's performance under New York's substantial-performance doctrine, Pet. App. 53a.

iii. The Bankruptcy Court also held that rejection of the Agreement "leaves EnerSys without the right to use the Exide mark." Pet. App. 80a. Although the court recognized that, upon the rejection of an executory contract in which the debtor is a licensor of intellectual property, section 365(n)(1)(B) of the Code permits a licensee to retain its rights under the contract, this section did not spare EnerSys from the consequence of rejection because Congress expressly excluded trademarks from the definition of "intellectual property" used in that section. Pet. App. 78a-80a (citing 11 U.S.C. § 101(35A)). As a result, the Agreement was not subject to the special protections of section 365(n)(1)(B). *Id.*

b. EnerSys appealed to the District Court under 28 U.S.C. § 158(a)(1). Pet. App. 22a. Finding "no error of fact or law" in the Bankruptcy Court's "well reasoned and detailed opinion," the District Court affirmed. Pet. App. 24a-25a, 26a.

c. EnerSys then appealed to the United States Court of Appeals for the Third Circuit, invoking that court's jurisdiction under 28 U.S.C. §§ 158(d)(1) and 1291. Pet. App. 6a. In broad terms, EnerSys argued that the Agreement is not an executory contract, and that, in any event, Exide could not reject it. *See id.*

i. The Court of Appeals held that the Agreement is not an executory contract and vacated the judgment of the District Court. Pet. App. 3a. The Court of Appeals purported to apply the same "material-breach" test identified by the lower courts—specifically, "whether the Agreement, on [the date that the bankruptcy petition was filed], contained at least one obligation for both Exide and EnerSys that would constitute a material breach under New York law if not performed." Pet. App. 8a. But instead of determining whether the parties had at least one obligation continuing into the future, the Court of Appeals for the first time applied the equitable doctrine of substantial performance to determine whether the parties' past performance would not excuse the other party from performing its remaining obligations and, therefore, whether the contract was executory under the material-breach test. *See* Pet. App. 8a-12a.

According to the Court of Appeals, under New York law, "when a breaching party 'has substantially performed' before breaching, 'the other party's performance is not excused.'" Pet. App. 9a (quoting

Hadden v. *Consol. Edison Co.*, 312 N.E.2d 445, 449 (N.Y. 1974)). The court acknowledged that there is "'no simple test for determining whether substantial performance has been rendered,'" *id.* (quoting *Hadden*, 312 N.E.2d at 449), and that the "issue of whether a party has substantially performed is usually a question of fact," *id.* Nevertheless, the Court of Appeals held that (i) EnerSys had substantially performed under the Agreement, (ii) Exide's remaining performance would not be excused, and (iii) therefore the contract was not executory. Pet. App. 10a. Thus, the Third Circuit's approach invites courts to conclude that, no matter how onerous the remaining obligations or beneficial the remaining rights under a contract, if one party's performance rendered outweighs its performance remaining, the contract is not executory and is therefore not subject to rejection or assumption under the Bankruptcy Code. *See id.*

Moreover, in weighing EnerSys's remaining obligations under the Agreement, the Court of Appeals discounted any remaining obligation that it characterized as a condition subsequent under New York law, because the nonoccurrence of such a condition would not excuse Exide's remaining performance under that state's law. Pet. App. 11a. As a result, the Court of Appeals effectively concluded that conditions are not among the obligations that can be used to determine whether an estate can reject or assume a contract under section 365(a). *See id.*

ii. Judge Ambro joined the court's opinion in full, but filed a separate concurring opinion, in which he stated his disagreement with "the Bankruptcy

Court's determination, adopted by the District Court, that '[r]ejection of the Agreement leaves EnerSys without the right to use the Exide mark.'" Pet. App. 14a (quoting *In re Exide Techs.*, 340 B.R. 222, 250 (Bankr. D. Del. 2006)). Judge Ambro acknowledged that Congress did not include trademarks within the definition of intellectual property that could be retained under section 365(n)(1)(B), and he further acknowledged that this decision was intentional. Pet. App. 16a, 19a. In his view, however, "a trademark licensor's rejection of a trademark agreement under 11 U.S.C. § 365 does not necessarily deprive the trademark licensee of its rights in the licensed mark." Pet. App. 14a.

iii. Exide filed a timely petition for rehearing *en banc*, but the Court of Appeals denied that petition without opinion. Pet. App. 84a-85a.[2]

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[2] Shortly after the Third Circuit issued its order denying Exide's petition for rehearing *en banc*, Exide filed an adversarial proceeding against EnerSys in the Bankruptcy Court, seeking a declaration of its rights under the reorganization plan that the Bankruptcy Court had previously approved in this matter. *See Exide Techs.* v. *EnerSys Delaware, Inc.*, No. 10-ap-52766 (Bankr. D. Del.) (complaint filed Aug. 20, 2010). That proceeding remains pending before the Bankruptcy Court.

REASONS FOR GRANTING THE PETITION

I. THE THIRD CIRCUIT'S DECISION FURTHER EXACERBATED A WELL-DEVELOPED SPLIT AMONG THE FEDERAL COURTS OF APPEALS.

A well-entrenched conflict exists among the federal courts of appeals regarding the test used to determine what constitutes an "executory contract" under section 365(a) of the Bankruptcy Code—a term that Congress left undefined.

In an effort to fill this void, two federal courts of appeals—the Sixth and Eleventh Circuits—have adopted a functional test to determine executoriness. Under this functional approach, the court focuses on the remaining obligations owed by both parties and will permit the trustee or debtor in possession to reject contracts that impose burdensome and disadvantageous obligations on the bankruptcy estate, and assume contracts that include rights that are beneficial and advantageous to the estate.

In contrast, seven other circuits (including the Third Circuit in the instant action) have adopted a "material-breach" test, which Professor Countryman first articulated in a 1973 law review article. *See* Vern Countryman, *Executory Contracts in Bankruptcy: Part I*, 57 Minn. L. Rev. 439, 460 (1973). Under this rigid test, the estate is denied the option of rejection or assumption, without exception, unless the contract imposes material obligations on both parties, the breach of which must excuse the other party's performance. And because this test looks to whether the other party's performance would be ex-

cused under state law, courts within these jurisdictions must engage in an extensive, state-law analysis into such questions as: (1) whether the obligation is a duty or condition under state law; and (2) whether the obligation satisfies the state's materiality standard.

In addition, the decision below now adds a third factor. Because the Third Circuit for the first time applied the equitable doctrine of substantial performance to determine whether a contract is executory, courts following the material-breach test also must engage in a fact-intensive inquiry into whether, notwithstanding the existence of material obligations on both sides, the performance that any party has rendered outweighs its remaining obligations.

A. Circuits Adopting the Functional Test for Determining Whether a Contract is Executory.

The Sixth Circuit was the first federal appellate court to adopt the so-called functional test for determining whether a contract is executory. *See In re Jolly*, 574 F.2d 349, 350-51 (6th Cir. 1978), *cert. denied*, 439 U.S. 929 (1978). As that court explained: "'The key, it seems, to deciphering the meaning of the executory contract rejection provisions, is to work backward, proceeding from an examination of the purposes rejection is expected to accomplish.'" *In re Becknell & Crace Coal Co.*, 761 F.2d 319, 322 (6th Cir. 1985) (quoting *Jolly*, 574 F.2d at 350-51), *cert. denied sub nom.*, *Sloan* v. *Hicks*, 474 U.S. 1006 (1985).

Under this straightforward approach, the focus becomes: (1) whether the contract imposes "obligations which continue into the future," and where the trustee or debtor in possession seeks to reject a contract, (2) whether that contract includes "an obligation for the debtor to do something in the future." *Id.* Thus, in *In re Becknell & Crace Coal Co.*, the Sixth Circuit held that the contract at issue (a lease-purchase agreement) "was executory" because the debtors "had obligations to perform in the future." *Id.*

The Sixth Circuit reaffirmed its adherence to the functional test in *In re Magness*, 972 F.2d 689 (6th Cir. 1992). In that case, the court acknowledged that the material-breach test—first proposed by Professor Countryman—was "helpful but not controlling in the resolution of what is an executory contract." *Magness*, 972 F.2d at 694. Instead, the court again stated that the proper analysis "work[ed] backward from an examination of the purposes to be accomplished by rejection," and if those purposes—namely, relieving the estate of onerous and burdensome obligations—can be accomplished through rejection, then the contract is executory. *Id.*

Following the Sixth Circuit's lead, the Eleventh Circuit first suggested its agreement with, and later adopted, the functional test. Beginning in *In re Martin Brothers Toolmakers, Inc.*, 796 F.2d 1435 (11th Cir. 1986), the Eleventh Circuit recognized, in *dicta*, the virtues of the functional approach:

> Section 365 enables the bankruptcy trustee to affirm or reject leases and executory contracts, and is based on the trustee's long-standing

> power to abandon obligations burdensome to the estate. *See* 2 Collier on Bankruptcy ¶ 365.01[1] (15th ed. 1986). Consequently, some courts have explicitly held that if a particular agreement is not unduly burdensome or is especially advantageous, it should not be construed as an agreement subject to § 365. *See, e.g., In re Becknell & Crace Coal Co.*, 761 F.2d 319 (6th Cir. 1985) (construing lease-purchase agreement of coal field); *In re G-N Partners*, 48 B.R. 462 (Bankr. D. Minn. 1985) (construing option to purchase reality); *In re Waldron*, 36 B.R. 633 (Bankr. S.D. Fla. 1984) (same).

Martin Bros., 796 F.2d at 1439.

Several years later, the Eleventh Circuit formally adopted the functional test in *In re General Development Corp.*, 84 F.3d 1364, 1365, 1374-75 (11th Cir. 1996). In that case, the debtor in possession sought to reject an agreement to convey property, but the other party opposed rejection, arguing that the underlying agreement was not an executory contract under Professor Countryman's material-breach test. *Id.* at 1375. The bankruptcy court, district court, and the Eleventh Circuit all disagreed. *Id.* at 1374. As the Eleventh Circuit's opinion explains: "While the concept of executoriness will no doubt engender additional debate in the future, this court finds no support in the Code itself or the legislative history of section 365 to apply as rigid a definition of 'executory' contract as [the appellant-creditor] would urge this Court to apply." *Id.*; *see also id.* ("this court as well as other courts and commentators have consis-

tently expanded the definition of 'executoriness' beyond the static definition articulated by Professor Countryman").

Under the Eleventh Circuit's approach, consistent with that of the Sixth Circuit, "the question of whether a contract is executory is determined by the benefits that assumption or rejection would produce for the estate." *Id.* at 1375. And because, in *General Development Corp.*, the debtor in possession's "ability to reject contracts which obligated it to improve and deed developed homesite lots was critical to its reorganization," the court held that the estate "was entitled to reject [the contract at issue] as an executory contract pursuant to Section 365(a) of the Bankruptcy Code." *Id.*

B. Circuits Adopting the Material-Breach Test for Determining Whether a Contract is Executory.

Seven other circuits—namely, the Third, Fourth, Fifth, Seventh, Eighth, Ninth, and Tenth Circuits—have adopted Professor Countryman's "material-breach" test. *See, e.g.*, *In re Gen. DataComm Indus., Inc.*, 407 F.3d 616, 623 (3d Cir. 2005), *cert. denied sub nom., Gen. Datacomm Indus., Inc.* v. *Arcara*, 546 U.S. 1031 (2005); *In re Sunterra Corp.*, 361 F.3d 257, 264 (4th Cir. 2004); *In re Liljeberg Enters., Inc.*, 304 F.3d 410, 436 (5th Cir. 2002); *Dick ex rel. Amended Hilbert Residence Maint. Trust* v. *Conseco, Inc.*, 458 F.3d 573, 577 (7th Cir. 2006); *In re Craig*, 144 F.3d 593, 596 (8th Cir. 1998); *In re Int'l Fibercom, Inc.*, 503 F.3d 933, 941 (9th Cir. 2007); *In re Baird*, 567 F.3d 1207, 1211 (10th Cir. 2009).

Under this rigid test, the court must determine whether "'the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other.'" *Gen. DataComm Indus.*, 407 F.3d at 623 (quoting *Sharon Steel Corp.* v. *Nat'l Fuel Gas Distrib. Corp.*, 872 F.2d 36, 39 (3d Cir. 1989), which in turn quotes Countryman, *supra*, at 460). "Thus, unless both parties have unperformed obligations that would constitute a material breach if not performed, the contract is not executory under § 365." *In re Columbia Gas Sys. Inc.*, 50 F.3d 233, 239 (3d Cir. 1995). "The time for testing whether there are material unperformed obligations on both sides is when the bankruptcy petition is filed." *Id.* at 240. Moreover, in conducting this determination, the bankruptcy court must "consider contract principles under relevant nonbankruptcy law"—that is, under the state law that governs the contract at issue. *Id.* at 240 n.10.

Because the focus of this test is whether a hypothetical nonperformance by either party would excuse the other party's performance, the test pulls bankruptcy courts into such legal thickets as (1) whether a given obligation is a duty (the breach of which might excuse the other party's performance) or whether it is a condition (the nonoccurrence of which would not excuse the other party's performance), *e.g.*, *Columbia Gas*, 50 F.3d at 241-44 (engaging in a fact-intensive analysis regarding conditions and duties); and (2) whether a particular duty is a material or immaterial obligation (such that the nonperformance of that obligation would either excuse or not excuse

the other party's performance), *e.g.*, *In re Wegner*, 839 F.2d 533, 536-37 (9th Cir. 1988) (determining the materiality of obligations under Montana law, which required the court to analyze Montana cattle-branding statutes). Moreover, because the test requires bankruptcy courts to apply relevant nonbankruptcy law, the answers to these questions can vary, even within the same court, depending on which state's law applies. *See infra* Part II.

The material-breach test requires courts to resolve significant and difficult state law issues, but the opinion below further exacerbated these problems. Because the Third Circuit for the first time applied the equitable doctrine of substantial performance to determine whether a contract is executory, the court added to this traditionally forward-looking, material-breach test the backward-looking, fact-intensive test for substantial performance. Pet. App. 9a-10a (applying the substantial performance doctrine after acknowledging that there is "no simple test for determining whether substantial performance has been rendered," and further acknowledging that "whether a party has substantially performed is usually a question of fact").[3]

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[3] The First, Second, and District of Columbia Circuits apparently have not had occasion to decide which approach to adopt. *See, e.g.*, *In re Penn Traffic Co.*, 524 F.3d 373, 379 (2d Cir. 2008) (explaining that the court has "characterized an executory contract as one 'on which performance remains due to some extent on both sides,'" but acknowledging that the court has never resolved "the question of how much performance must be outstanding for the contract to be treated as executory under § 365"); *In re La Electronica, Inc.*, 995 F.2d 320, 322 (1st Cir. 1993) (declining to resolve whether the agreement at issue

II. THE MATERIAL-BREACH TEST IS INCONSISTENT WITH CONGRESSIONAL INTENT AND INJECTS AN ARBITRARY STATE-LAW ANALYSIS INTO AN AREA OF FEDERAL LAW THAT DEMANDS UNIFORMITY.

When Congress passed the Bankruptcy Reform Act of 1978, and thereby enacted section 365 of the Code, it was presumably aware of Professor Countryman's seminal 1973 article, which endeavored to define the term "executory contract." And yet, Congress left that term undefined, and expressed its belief that there was "no precise definition of what contracts are executory." S. Rep. No. 95-989, at 58 (1978), *reprinted in* 1978 U.S.C.C.A.N. 5787, 5844; *accord* H.R. Rep. No. 95-595, at 347 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6303. Instead, calling for the kind of flexibility that is traditionally vested in courts of equity, the Senate and House Committee

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was an executory contract). However, at least one court within the Second Circuit has adhered to the functional approach and thoroughly explained the "psychedelic confusion" that strict adherence to the Countryman test has engendered. *In re Drexel Burnham Lambert Group, Inc.*, 138 B.R. 687, 696-700 (Bankr. S.D.N.Y. 1992). And the First Circuit has expressly acknowledged the split among the circuits on this critical issue:

> Although the Bankruptcy Code does not define the term "executory contract," most courts adopt the position advanced by Professor Vern Countryman . . . . A few courts, treating Professor Countryman's definition as "helpful but not controlling," hold that the determination whether a contract is "executory" requires a more "functional" approach, "with an eye towards furthering the policies of the Bankruptcy Code."

La Electronica, 995 F.2d at 322 n.3 (citations omitted).

Reports both state that the term "*generally* includes contracts on which performance remains due *to some extent* by both parties." *Id.* (emphasis added); *see also NLRB* v. *Bildisco & Bildisco*, 465 U.S. 513, 522 n.6 (1984) (quoting this passage).

Contrary to this stated need for flexibility, the majority of the circuits have adopted—often with little or no analysis, *e.g.*, *In re Murexco Petro., Inc.*, 15 F.3d 60, 62 (5th Cir. 1994)—Professor Countryman's rigid, material-breach test, which focuses exclusively on whether one party's breach would excuse the other party's performance. The rigidity of this approach is not only contrary to Congress's statement that there is "no precise definition of what contracts are executory," but, more importantly, it can deny trustees and debtors in possession their traditional authority to shed onerous and burdensome obligations by requiring near-talismanic adherence to state-law standards that have nothing to do with federal bankruptcy policy. Indeed, whereas the policy behind Chapter 11 of the Bankruptcy Code is the "ultimate rehabilitation of the debtor," *Nichols* v. *United States*, 384 U.S. 678, 687 (1966), the material-breach test elevates form over substance. It focuses on questions of materiality, duties versus conditions, and substantial performance, instead of considering the critical issue of whether the estate would benefit from assuming or rejecting the contract's remaining obligations. Not surprisingly, then, the Eleventh Circuit could find "no support in the Code itself or the legislative history of section 365 to apply as rigid a definition of 'executory' contract" as the one first

advocated by Professor Countryman. *Gen. Dev. Corp.*, 84 F.3d at 1375.[4]

Just as troubling, the material-breach test's importation of state-law standards invites arbitrariness into an area of federal law that demands uniformity. The overarching purpose of the Bankruptcy Code is to carry out Congress's constitutional mandate to establish "uniform Laws on the subject of Bankruptcies throughout the United States." U.S. Const., Art. I, § 8, cl. 4. The reliance on unrelated state-law standards undermines this purpose because the question of whether a particular contract is executory may vary, depending on which state's law applies, but the federal interest—whether a contract may be rejected or assumed—should not. The material-breach test leads to arbitrary results in an area that demands nationwide uniformity. *Cf. Ry. Labor Executives' Ass'n* v. *Gibbons*, 455 U.S. 457, 468 (1982) ("bankruptcy laws must be uniform throughout the United States").

Moreover, the combination of these two factors—the reliance on state law standards unrelated to federal bankruptcy law and policy, and the divergent results that can result depending on which state's law is applied—means that the test will often pro-

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[4] *Cf. In re Norquist*, 43 B.R. 224, 227 (Bankr. E.D. Wash. 1984) ("The logic of [the material-breach test] escapes me. I believe that the requirement of a remaining material obligation on the part of the nondebtor serves no useful purpose. It eliminates from the category of executory contracts some obligations which may prove extremely burdensome and, in some cases, obligations which may be prohibitive to the reorganization efforts of the debtor.").

duce results at odds with the stated purposes of the Bankruptcy Code. The present case is a prime example. The Third Circuit's reliance on the material-breach test allowed it to ignore the significant obligations that the Agreement continues to impose on both parties, including Exide's obligation to refrain from using a trademark bearing its own name in connection with a major segment of its business. *See* Pet. App. 34a-35a, 44a-53a. Whereas adherence to the functional test would have allowed the bankruptcy estate to shed this burdensome and onerous obligation, the Third Circuit's approach denied rejection because, under its reading of New York law, the other party's past performance outweighed its future obligations. *See* Pet. App. 9a-10a.

Finally, the material-breach test has proven itself unpredictable and difficult to apply. The state-law standards that it imports, for purposes of measuring materiality, typically require bankruptcy courts to engage in highly-subjective, fact-intensive analyses that demand the weighing of often competing factors. For example, the test for materiality under California law would require a bankruptcy court to consider:

> (1) The extent to which the injured party will obtain the substantial benefit which he could have reasonably anticipated; (2) the extent to which the injured party may be adequately compensated in damages for lack of complete performance; (3) the extent to which the party failing to perform has already partly performed or made preparations for performance; (4) the greater or less[er] hardship on the par-

> ty failing to perform in terminating the contract; (5) the wilful, negligent, or innocent behavior of the party failing to perform; and (6) the greater or less uncertainty that the party failing to perform will perform the remainder of the contract.

Sackett v. *Spindler*, 248 Cal. App. 2d 220, 229 (1967). Moreover, under the substantial-performance test that the Third Circuit imported into its executoriness analysis, a bankruptcy court would have to consider:

> [1] the ratio of the performance already rendered to that unperformed, [2] the quantitative character of the default; [3] the degree to which the purpose behind the contract has been frustrated, [4] the willfulness of the default, and [5] the extent to which the aggrieved party has already received the substantial benefit of the promised performance.

Pet. App. 9a (quoting *Hadden*, 312 N.E.2d at 449). At bottom, the tests for materiality and substantial performance invite highly subjective and divergent results, because the tests themselves are highly subjective and unpredictable.

The functional approach, however, does not suffer from any of these infirmities. The functional test is flexible and, therefore, consistent with congressional intent. In addition, the functional test is consistent with bankruptcy law's purpose of rehabilitating the debtor. It does not elevate form over substance; rather, it allows the estate to reject contracts whose combination of obligations and rights are onerous and burdensome, and assume contracts whose com-

bination of obligations and rights are beneficial and advantageous. Finally, the functional test leads to more consistent outcomes; it focuses on the obligations remaining under a contract, without characterizing the nature of those obligations under unrelated constructs of state law.

III. THE ISSUE IN CONFLICT IS IMPORTANT, RECURRING, AND WELL-PRESENTED BY THIS CASE.

The question of which contracts are executory is an issue of paramount importance for "Bankruptcy Courts and for businesses that seek reorganization" under the Code. *Cf. N.C.P. Mktg. Group, Inc.* v. *BG Star Prods., Inc.*, 129 S. Ct. 1577, 1578 (2009) (statement of Kennedy, J., in which Breyer, J., joined, regarding the denial of certiorari) (explaining that a split among the courts over the meaning of section 365(c)(1), which limits the power of the trustee or debtor in possession to assume an executory contract, "is an important one to resolve for Bankruptcy Courts and for businesses that seek reorganization"); *see also In re Wireless Data, Inc.*, 547 F.3d 484, 488 (2d Cir. 2008) (per curiam) (explaining that "assumption is an important re-organizational tool under Chapter 11"). The breadth of the definition of "executory contracts" determines which agreements are subject to assumption and rejection, and that, in turn, determines the trustee or debtor in possession's power to reject obligations that are onerous and burdensome, and to assume obligations that correspond with rights that are beneficial and advantageous. Thus, consistent with the doctrine's origins, whether a contract is executory defines the scope of the trus-

tee or debtor in possession's long-standing power to abandon liabilities burdensome to the estate and to maximize the recoveries available to the creditors.

This important question is also a recurring one. Indeed, it comes up in virtually every corporate reorganization case filed under Chapter 11 of the Bankruptcy Code, and to a lesser extent in cases filed under Chapters 7, 12, and 13. *See* William D. Warren & Daniel J. Bussel, Bankruptcy 247 (6th ed. 2002) ("Th[e] question [of executoriness] can arise in a Chapter 7 case as well as in all types of reorganization cases, but typically the issue arises in Chapter 11 cases . . . ."); *see also* 1 Bankruptcy Law Manual § 8:40 (5th ed. 2009) ("The power to assume or reject executory contracts is especially important in reorganization cases where it is used to relieve the debtor in possession of unperformed obligations that would otherwise hamper the debtor's opportunity to make a fresh start. Executory contracts and leases also may be rejected in chapter 7, chapter 12, and chapter 13 cases." (footnotes omitted)).

Finally, the question at issue is well-presented in this case. Indeed, this case turns on which test is applied. If the functional test applicable in the Sixth and Eleventh Circuits is adopted, then the Agreement is unquestionably executory in nature: It imposes obligations on both parties, and the obligations that it imposes on the estate are onerous and burdensome—particularly Exide's obligation to refrain from using a trademark bearing its own name in connection with a major segment of its business. *See* Pet. App. 34a-35a, 44a-53a. If, on the other hand, the material-breach test is applied, then under the

Third Circuit's analysis, the contract is not executory, because EnerSys's performance rendered outweighs its performance remaining. Pet. App. 9a-12a.

Moreover, a separate subsection of section 365 does not allow EnerSys to retain the right to use the EXIDE mark even after rejection and, therefore, does not provide an alternative ground for affirming the judgment below. To be sure, a provision of section 365(n) provides that, upon rejection of an executory contract in which the debtor is a licensor of "intellectual property," a licensee may elect to "retain its rights" under the license. 11 U.S.C. § 365(n)(1)(B). But Congress omitted from the definition of "intellectual property" trademarks, trade names, and other proprietary marks, *see id.* § 101(35A) (using the limiting term "means"—not the more expansive term "includes"—to define the forms of "intellectual property" covered by the definition, but not including within this exclusive list "trademarks" and other marks). According to the Senate Report that accompanied the passage of the legislation adding this provision, this decision was intentional:

> [T]he bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor-licensors. While such rejection is of concern because of the interpretation of section 365 by [*Lubrizol Enterprises, Inc.* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1985)], such contracts raise issues beyond the scope of this legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large

> extent on control of the quality of the products or services sold by the licensee.

S. Rep. No. 100-505, at 5 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3204.

As a result, if Exide, as debtor in possession, is entitled to reject the Agreement (which would occur if a "functional," rather than "material-breach," test were applied), then the rejection would "constitute[]" a breach, and EnerSys would be left with only an unsecured claim for monetary damages. *See* 11 U.S.C. § 365(g). In other words, because section 365(n)(1)(B) is not a viable alternative ground for affirmance, this case presents a compelling vehicle to resolve the question presented.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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September 27, 2010

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UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No 08-1872

In re EXIDE TECHNOLOGIES,
Debtors.

ENERSYS DELAWARE, INC., formerly known as EnerSys Inc.,
Appellant.

On Appeal from the United States District Court
for the District of Delaware
(D.C. No. 1-06-cv-00302)
District Judge: Hon. Sue L. Robinson

Argued on May 12, 2009

Before: AMBRO, ROTH and ALARCÓN*, Circuit Judges

(Opinion filed: June 1, 2010)

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* Honorable Arthur L. Alarcón, Senior United States Circuit Judge for the Ninth Circuit, sitting by designation.

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OPINION

ROTH, Circuit Judge:

This case presents the question whether the parties' Agreement is an executory contract. EnerSys Delaware, Inc., appeals the judgment of the District Court, which affirmed the Bankruptcy Court's order that the Agreement was an executory contract, subject to rejection under 11 U.S.C. § 365(a), and that Exide Technologies could reject it. We conclude, however, that EnerSys has substantially performed the Agreement. As a result, EnerSys does not have any unperformed material obligations that would excuse Exide from performance. We hold, therefore, that the Agreement is not an executory contract. We will vacate the District Court's order and remand this case to the District Court with instructions to remand it to the Bankruptcy Court for further proceedings consistent with this opinion.

I. BACKGROUND

A. Factual background

On April 15, 2002, Exide filed a voluntary petition for bankruptcy protection under Chapter 11 of the Bankruptcy Code, 11 U.S.C § 1101, et seq. After filing for bankruptcy, Exide sought to reject various agreements that it had with EnerSys arising from their June 1991 transaction. In June 1991, Exide sold substantially all of its industrial battery busi-

ness to EnerSys for about $135 million.[5] The assets that Exide sold to EnerSys included physical manufacturing plants, equipment, inventory, and certain items of intellectual property. To formalize the sale, Exide and EnerSys entered into over twenty-three agreements. Four of these agreements constitute the crux of the dispute: (1) the Trademark and Trade Name License Agreement, (2) the Asset Purchase Agreement, (3) the Administrative Services Agreement, and (4) a letter agreement. The Bankruptcy Court held, in an order predating the order challenged here, that the four agreements constituted a single integrated Agreement (the Agreement). In re Exide Techs., 340 B.R. 222, 227 (Bankr. D. Del. 2006). Neither Exide nor EnerSys have challenged this determination. We therefore take the next step of determining whether the Agreement is an executory contract.

Under the Agreement, Exide licensed its "Exide" trademark to EnerSys for use in the industrial battery business. Exide wanted to continue to use the Exide mark outside of the industrial battery business. To accommodate the needs of both parties, Exide granted EnerSys a perpetual, exclusive, royalty-free license to use the Exide trademark in the industrial battery business. This division worked, and, for almost ten years, each party appeared satisfied with the results of the transaction.

In 2000, however, Exide expressed a desire to return to the North American industrial battery market. After the parties agreed to the early termina-

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[5] EnerSys was known then as Yuasa Battery (America), Inc.

tion of a ten-year noncompetition Agreement (thus granting Exide permission to reenter the market), Exide made several attempts to regain the trademark from EnerSys, but EnerSys refused. Exide wanted to regain the mark as a part of its strategic goal to unify its corporate image. Exide hoped to use a single name and trademark on all the products that it produced; this single name and trademark were, naturally, "Exide."

Exide reentered the industrial battery business by purchasing GNB Industrial Battery Company. Exide, however, remained bound by the ongoing obligation to forbear from using the Exide trademark in that business for as long as the license continued in effect. Thus, from 2000 until Exide filed for bankruptcy protection in 2002, Exide was forced to compete directly against EnerSys, which was selling batteries under the name "Exide." Then, when Exide filed for bankruptcy under Chapter 11, Exide was presented the opportunity to try to regain the Exide trademark by rejecting the Agreement. Exide sought the Bankruptcy Court's approval to do so.

B. Bankruptcy and District Court Proceedings

On April 3, 2006, the Bankruptcy Court entered an order granting Exide's motion to reject the Agreement. The court held that the Agreement was an executory contract, subject to rejection under 11 U.S.C. § 365(a), and that rejection terminated Exide's obligations under it. About three months later, on July 11, the Bankruptcy Court entered an order approving the transition plan and denying EnerSys's

motion to stay. EnerSys appealed these two orders to the District Court. The District Court, on February 27, 2008, affirmed the Bankruptcy Court's orders.

EnerSys appeals the District Court's order, arguing two issues: (1) the District Court erred in holding that Agreement was an executory contract, and (2) it erred in holding that rejection terminates EnerSys's rights under the Agreement.

II. DISCUSSION

The Bankruptcy Court had jurisdiction under 28 U.S.C. §§ 157(a) and 1334(b). The District Court had jurisdiction to decide EnerSys's appeal under 28 U.S.C. § 158(a). We have jurisdiction under 28 U.S.C. §§ 158(d) and 1291 to review the District Court's final order.

We exercise plenary review of an order from a district court sitting as an appellate court in review of a bankruptcy court. *E.g.*, In re CellNet Data Sys., Inc., 327 F.3d 242, 244 (3d Cir.2003). We will review both courts' legal conclusions *de novo*. Id.; In re Gen. DataComm Indus., Inc., 407 F.3d 616, 619 (3d Cir. 2005). Furthermore, we will set aside a bankruptcy court's factual findings only if clearly erroneous. In re CellNet Data, 327 F.3d at 244. For mixed questions of law and fact, we will engage in "a mixed standard" of review, "affording a clearly erroneous standard to integral facts, but exercising plenary review of the lower court's interpretation and application of those facts to legal precepts." *Id.*

A. Executory contract

The policy behind Chapter 11 of the Bankruptcy Code is the "ultimate rehabilitation of the debtor." *Nicholas* v. *United States,* 384 U.S. 678, 687 (1966). The Code therefore allows debtors in possession, "subject to the court's approval, ... [to] reject any executory contract or unexpired lease of the debtor." 11 U.S.C. § 365(a). But the Bankruptcy Code does not define "executory contract." Relevant legislative history demonstrates that Congress intended the term to mean a contract "on which performance is due to some extent on both sides." H.R. Rep. No. 95-595, 347 (1977), 1978 U.S.C.C.A.N. 5787, 5963; *see In re Columbia Gas Sys. Inc.,* 50 F.3d 233, 238 (3d Cir. 1995).

With congressional intent in mind, this Court has adopted the following definition: "'An executory contract is a contract under which the obligation of both the bankrupt and the other party to the contract are so far underperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other.'" *In re Columbia Gas,* 50 F.3d at 239 (alteration omitted) (quoting *Sharon Steel Corp. v. Nat'l Fuel Gas Distrib. Corp.,* 872 F.2d 36, 39 (3d Cir. 1989)).[6] "Thus, unless both parties have unperformed obligations that would constitute a material breach if not performed, the contract is not executory under § 365." *In re Co-*

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[6] Professor Vern Countryman, a leading bankruptcy scholar, created and advocated this definition in a law-review article. *See Sharon Steel Corp.,* 872 F.2d at 39 (citing Countryman, *Executory Contracts in Bankruptcy: Part I,* 57 Minn. L.Rev. 439 (1973)).

lumbia Gas, 50 F.3d at 239. The party seeking to reject a contract bears the burden of demonstrating that it is executory. And "[t]he time for testing whether there are material unperformed obligations on both sides is when the bankruptcy petition is filed." Id. at 240. Finally, to conduct this determination, we "consider contract principles under relevant nonbankruptcy law." Id. at 240 n. 10; *see In re Gen. DataComm*, 407 F.3d at 623. New York, because it is the forum selected in the Agreement's choice-of-law provision, provides the relevant nonbankruptcy law.

Accordingly, our inquiry is to determine whether the Agreement, on April 15, 2002, contained at least one obligation for both Exide and EnerSys that would constitute a material breach under New York law if not performed. If not, then the Agreement is not an executory contract.[7] *See In re Gen. DataComm*, 407 F.3d at 623.

Under New York law, a material breach, which "justif [ies] the other party to suspend his own performance," is "a breach which is so substantial as to defeat the purpose of the entire transaction." Lipsky v. Commonwealth United Corp., 551 F.2d 887, 895 (2d Cir. 1976) (citation omitted); *see In re Lavigne*, 114 F.3d 379, 387 (2d Cir. 1997):

> [U]nder New York law, only a breach in a contract which substantially defeats the purpose of that contract can be grounds for rescission. The non-breaching party will be discharged

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[7] There is no remaining contention made that Exide had any unperformed obligations.

> from the further performance of its obligations under the contract when the breach goes to the root of the contract.

Id. (internal quotation marks omitted).

But when a breaching party "has substantially performed" before breaching, "the other party's performance is not excused." *Hadden* v. *Consolidated Edison Co.*, 312 N.E.2d 445, 449 (N.Y. 1974); *see Merrill Lynch & Co. Inc.*, v. *Allegheny Energy, Inc.*, 500 F.3d 171, 186 (2d Cir. 2007).

New York's high court has instructed how to determine when a party has rendered substantial performance:

> There is no simple test for determining whether substantial performance has been rendered and several factors must be considered, including the ratio of the performance already rendered to that unperformed, the quantitative character of the default, the degree to which the purpose behind the contract has been frustrated, the willfulness of the default, and the extent to which the aggrieved party has already received the substantial benefit of the promised performance.

Hadden, 312 N.E.2d at 449. "The issue of whether a party has substantially performed is usually a question of fact and should be decided as a matter of law only where the inferences are certain." *Merrill Lynch & Co. Inc.*, 500 F.3d at 186 (citing *Anderson Clayton & Co.* v. *Alanthus Corp.*, 457 N.Y.S.2d 578, 579

(App. Div. 1983)).

The Bankruptcy Court here failed to properly measure whether either party had substantially performed. Our inspection of the record, however, reveals that the inferences are clear that EnerSys has substantially performed. Applying *Hadden*'s balancing test, EnerSys's performance rendered outweighs its performance remaining and the extent to which the parties have benefitted is substantial. Specifically, EnerSys has substantially performed by paying the full $135 million purchase price and operating under the Agreement for over ten years. EnerSys has been producing industrial batteries since 1991, using all the assets transferred under the Agreement, including real estate, real-estate leases, inventory, equipment and the right to use the trademark "Exide." Moreover, EnerSys has provided Exide with the substantial benefit of assuming the latter's liabilities, including numerous contracts and accounts receivable, within the business EnerSys purchased.

Exide argues that EnerSys's ongoing, unperformed obligations outweigh its performance. It relies on the following four obligations of EnerSys: (1) an obligation to satisfy the Quality Standards Provision, and obligations to observe (2) the Use Restriction, (3) the Indemnity Obligations, and (4) the Further Assurances Obligations.[8] We reject Exide's argument; these four obligations do not outweigh the substantial performance rendered and benefits re-

[8] Exide does not argue in its Brief that other obligations, set out by the Bankruptcy Court, such as the pension obligation, are substantially unperformed.

ceived by EnerSys.

First, EnerSys's obligation to observe the Use Restriction, *i.e.*, not to use the Trademark outside the industrial battery business, is not a material obligation because it is a condition subsequent that requires EnerSys to use the mark in accordance with the terms of the Trademark Licence. A condition subsequent is not a material obligation. *See In re Columbia Gas System, Inc.*, 50 F.3d 233, 241 (3d Cir. 1995) ("Non-occurrence of a condition is not a breach by a party unless he is under a duty that the condition occur." (quoting Restatement (Second) of Contracts § 225(3) (1981))). Moreover, the Use Restriction does not relate to the purpose of the Agreement-which is that Exide would transfer its industrial battery business and the concomitant assets and liabilities to EnerSys and EnerSys in exchange would pay Exide about $135 million. Therefore, even if the obligation were not a condition subsequent, it nevertheless would not affect the substantial performance of the Agreement.

Second, EnerSys's obligation to observe the Quality Standards Provision is minor because it requires meeting the standards of the mark for each battery produced; it does not relate to the transfer of the industrial battery business. Furthermore, the record reveals that Exide never provided EnerSys with any quality standards. (J.A. 297.) The parties, in fact, do not ever seem to have discussed any such standards. (*See id.* at 321-22.) It is an untenable proposition to find an obligation to go to the very root of the parties' Agreement when the parties themselves act as if they did not know of its existence.

Finally, the other two obligations that Exide argues are substantial, the Indemnity Obligation and the Further Assurances Obligation, do not outweigh the factors supporting substantial performance. In regard to the Indemnity Obligation, under the Asset Purchase Agreement, all representations and warranties arising from it expired in 1994, on the third anniversary of the closing and Exide did not present any evidence that any liability assumed by EnerSys was still pending. Similarly, under the Further Assurances Obligation, EnerSys agreed to cooperate to facilitate the 1991 transaction. Exide has identified no remaining required cooperation.

Exide argues, however, citing *Hadden,* that the substantial-performance doctrine is "irrelevant here" because it applies only in cases involving construction or employment contracts. *See* Hadden, 312 N.E.2d at 449. Our review of New York law reveals that no New York court has held (or even intimated, *see id.*) that the doctrine should be confined to the construction/employment contract areas. Indeed, the Second Circuit Court of Appeals, applying New York law, recently applied *Hadden*'s substantial-performance doctrine in a $490 million asset-purchase contract that formalized the sale of an energy trading commodities business to a larger energy business. *See Merrill Lynch,* 500 F.3d at 186. That contract was neither a construction nor employment contract. We also now conclude that we will not confine the doctrine to construction and employment contract cases.

III. CONCLUSION

For the reasons stated above, we have determined that the Agreement is not an executory contract because it does not contain at least one ongoing material obligation for EnerSys. Because the Agreement is not an executory contract, Exide cannot reject it. We will vacate the District Court's order and remand this case to it for remand to the Bankruptcy Court for further proceedings consistent with this opinion.

AMBRO, Circuit Judge, concurring

I join Judge Roth's opinion in full, and write separately to address the Bankruptcy Court's determination, adopted by the District Court, that "[r]ejection of the Agreement leaves EnerSys without the right to use the Exide mark." *In re Exide Techs.*, 340 B.R. 222, 250 (Bankr. Del. 2006). I disagree with that determination, as I believe a trademark licensor's rejection of a trademark agreement under 11 U.S.C. § 365 does not necessarily deprive the trademark licensee of its rights in the licensed mark.

In *Lubrizol Enterprises, Inc.* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986), a licensor, Richmond Metal Finishers, granted a nonexclusive technology license to Lubrizol. The license stated that Richmond and Lubrizol owed each other certain duties. *See* id. at 1045. Shortly thereafter, Richmond filed for bankruptcy protection and sought to rescind the license by rejecting it under § 365. The Fourth Circuit Court granted this request and "deprive[d] Lubrizol of all rights" under the license:

> Under 11 U.S.C. § 365(g), Lubrizol would be entitled to treat rejection as a breach and seek a money damages remedy; however, it could not seek to retain its contract rights in the technology by specific performance even if that remedy would ordinarily be available upon

> breach of this type of contract.

Id. at 1048. The Court acknowledged that this interpretation of rejection as a termination "could have a general chilling effect upon the willingness of ... parties to contract at all with businesses in possible financial difficulty." *Id.* "But," it said, "under bankruptcy law such equitable considerations may not be indulged by courts in respect of the type of contract here in issue." *Id.*

Reacting to industry concerns that "after *Lubrizol* any patent or trademark licensor could go into Chapter 11 and invalidate a license perfectly valid under contract law," Congress enacted 11 U.S.C. § 365(n). Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 Minn. L. Rev. 227, 307 (1989). Through this provision, Congress sought "to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license pursuant to Section 365 in the event of the licensor's bankruptcy." S. Rep. No. 100-505, at 1 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3200.

Section 365(n) reads in relevant part:

> If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect—
>
> > (A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as

> terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or
>
> (B) to retain its rights (including the right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property ..., as such rights existed immediately before the case commenced for—
>
> (i) the duration of such contract; and
>
> (ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

11 U.S.C. 365(n)(1). Thus, in the event that a bankrupt licensor rejects an intellectual property license, § 365(n) allows a licensee to retain its licensed rights-along with its duties-absent any obligations owed by the debtor-licensor.

Congress, however, did not include trademarks within the relevant definition of "intellectual property." Instead, it defined "intellectual property" only to include a:

> (A) trade secret;

> (B) invention, process, design, or plant protected under title 35;
>
> (C) patent application;
>
> (D) plant variety;
>
> (E) work of authorship protected under title 17; or
>
> (F) mask work protected under chapter 9 of title 17;
>
> to the extent protected by applicable nonbankruptcy law.

11 U.S.C. § 101(35A).

Because Congress did not protect trademark licensees under § 365(n), courts have reasoned by negative inference that it intended for *Lubrizol*'s holding to control when a bankrupt licensor rejects a trademark license. *See, e.g., In re Old Carco LLC*, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) ("Trademarks are not 'intellectual property' under the Bankruptcy Code ... [, so] rejection of licenses by [a] licensor deprives [the] licensee of [the] right to use [a] trademark...."); *In re HQ Global Holdings, Inc.*, 290 B.R. 507, 513 (Bankr. D. Del. 2003) ("[S]ince the Bankruptcy Code does not include trademarks in its protected class of intellectual property, *Lubrizol* controls and the Franchisees' right to use the trademark stops on rejection."); In re Centura Software Corp., 281 B.R. 660, 674-75 (Bankr. N.D. Cal. 2002) ("Because Section 365(n) plainly excludes trademarks, the court holds that

[the licensee] is not entitled to retain any rights in [the licensed trademark] under the rejected ... [t]rademark [a]greement."); In re Chipwich, Inc., 54 B.R. 427, 431 (Bankr. S.D.N.Y. 1985) ("[B]y rejecting the [trademark] licenses [,] the debtor will deprive [the licensee] of its right to use the ... trademark for its products.").

The Bankruptcy Court here adopted this reasoning:

> Congress certainly could have included trademarks within the scope of § 365(n) [,] but saw fit not to protect them. Therefore, the holding in *[Lubrizol* v.*] Richmond Metal Finishers,* as well as the holdings in the other pre and post § 365(n) trademark rejection cases ..., still retain vitality insofar as they relate to trademark licenses. As a result, a trademark license is terminated upon rejection and the licensee is left only with a claim for damages.

In re Exide, 340 B.R. at 250 n. 40.

But while the Supreme Court has endorsed reasoning from negative inference in the context of § 365, *see* NLRB v. Bildisco & Bildisco, 465 U.S. 513, 522-23 (1984) (holding that § 365(a) applied to collective-bargaining agreements covered by the National Labor Relations Act because Congress failed to draft an exclusion for them), I believe such reasoning is inapt for trademark license rejections.

When Congress enacted § 365(n), it explicitly explained why it excluded trademark licensees from

the protection afforded to "intellectual property" licensees:

> [T]he bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor-licensors. While such rejection is of concern because of the interpretation of section 365 by the *Lubrizol* court and others, *see, e.g.*, In re Chipwich, Inc., 54 Bankr. Rep. 427 (Bankr. S.D.N.Y. 1985), such contracts raise issues beyond the scope of this legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts.

S. Rep. No. 100-505, at 5, *reprinted in* 1988 U.S.C.C.A.N. at 3204. "Nor does the bill address or intend any inference to be drawn concerning the treatment of executory contracts which are unrelated to intellectual property." *Id.*[1]

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[1] This statement may stem from the recommendation of the National Bankruptcy Conference that "there should be in this legislative history a caveat that makes it clear that no negative inferences are to be drawn or should be drawn by courts that, because Congress has legislated in a particular way a licensing agreement, those other agreements that are not within the parameters of the legislation are to be dealt with in any particular way." *Intellectual Property Contracts in Bankruptcy: Hearing*

In light of these direct congressional statements of intent, it is "simply more freight than negative inference will bear" to read rejection of a trademark license to effect the same result as termination of that license. Michael T. Andrew, Executory Contracts Revisited, 62 U. Colo. L. Rev. 1, 11 (1991). "[T]he purpose of § 365" is not "to be the functional equivalent of a rescission, rendering void the contract and requiring that the parties be put back in the positions they occupied before the contract was formed." *Thompkins* v. *Lil' Joe Records, Inc.*, 476 F.3d 1294, 1306 (11th Cir. 2007). It "merely frees the estate from the obligation to perform," and "has absolutely no effect upon the contract's continued existence." *Id.* (internal citations omitted); *see also* 3 *Collier on Bankruptcy* ¶ 365.14 n.3 (Alan N. Resnick & Henry J. Sommer eds., 16th ed. 2009) (noting some take the view that "rejection by the debtor terminates the rights of the other parties to the contract as opposed to being simply a determination not to perform, more in the nature of an abandonment, which was the intellectual source of the rejection concept"); 2 Norton Bankruptcy Law and Practice § 46:57 (3d ed. 2008) ("The Bankruptcy Code instructs us that rejection is a breach of the executory contract. It is not avoidance, rescission, or termination." (footnotes omitted)).

By permitting Exide to "extinguish [ ]" EnerSys's right in the "Exide" mark through § 365 rejection, the Bankruptcy and District Courts failed to follow

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on H.R. 4657 Before the Subcomm. on Monopolies and Commercial Law of the H. Comm. on the Judiciary, 100th Cong. 101 (1988) (statement of George Hahn, Esq., Representative, National Bankruptcy Conference).

this path. Rather than reasoning from negative inference to apply another Circuit's holding to this dispute, the Courts here should have used, I believe, their equitable powers to give Exide a fresh start without stripping EnerSys of its fairly procured trademark rights. *Cf.* In re Matusalem, 158 B.R. 514, 521-22 (Bankr. S.D. Fla. 1993) (suggesting that rejection of a trademark license would not deprive a licensee of its rights in the licensed mark).

Courts may use § 365 to free a bankrupt trademark licensor from burdensome duties that hinder its reorganization. They should not—as occurred in this case—use it to let a licensor take back trademark rights it bargained away. This makes bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	
	)	Chapter 11
EXIDE TECHNOLOGIES,	)	Bk. No. 02-1125
et al.,	)	(KJC)
	)	
Debtors.	)	

ENERSYS DELAWARE, INC.	)	
	)	
Appellant,	)	
	)	Civ. No. 06-302-
v.	)	SLR
	)	Adv. No. 06-33
EXIDE TECHNOLOGIES,	)	(KJC)
	)	
Appellee.	)	

MEMORANDUM ORDER

At Wilmington this 27th day of February, 2008, having reviewed the appeal filed by EnerSys Delaware, Inc. ("EnerSys"), and the papers filed in connection therewith;

IT IS ORDERED that the appeal is denied. The decision of the bankruptcy court dated April 3, 2006 is affirmed, for the reasons that follow.

1. **Standard of review.** This court has jurisdiction to hear an appeal from the bankruptcy court pursuant to 28 U.S.C. § 158(a). In undertaking a re-

view of the issues on appeal, the court applies a clearly erroneous standard to the bankruptcy court's findings of fact and a plenary standard to that court's legal conclusions. *See Am. Flint Glass Workers Union* v. *Anchor Resolution Corp.*, 197 F.3d 76, 80 (3d Cir. 1999). With mixed questions of law and fact, the court must accept the bankruptcy court's "finding of historical or narrative facts unless clearly erroneous, but exercise[s] 'plenary review of the [bankruptcy] court's choice and interpretation of legal precepts and its application of those precepts to the historical facts.' " *Mellon Bank, N.A.* v. *Metro Commc'ns, Inc.*, 945 F.2d 635, 642 (3d Cir. 1991) (quoting *Universal Minerals, Inc.* v. *C.A. Hughes & Co.*, 669 F.2d 98, 101-02 (3d Cir.1981)). The district court's appellate responsibilities are further informed by the directive of the United States Court of Appeals for the Third Circuit, which effectively reviews on a *de novo* basis bankruptcy court opinions. In re Hechinger, 298 F.3d 219, 224 (3d Cir. 2002); In re Telegroup, 281 F.3d 133, 136 (3d Cir. 2002).

2. **Background facts.** On June 10, 1991, Exide Technologies ("Exide") sold substantially all of its industrial battery business to EnerSys pursuant to a series of agreements. The assets Exide sold to EnerSys as part of the 1991 transaction included physical manufacturing plants, equipment and certain items of intellectual property. In addition, Exide licensed its EXIDE trademark[1] to EnerSys, subject to certain obligations (e.g., limiting use to the industrial mar-

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[1] According to Exide, the EXIDE trademark was first introduced in 1900 and has been critical to Exide and Exide's branding strategy since then.

ket) and subject to termination under certain circumstances (e.g., if EnerSys used the EXIDE trademark outside the industrial market). From 2000, when Exide returned to the North American industrial battery market, until Exide filed for bankruptcy protection in 2002, Exide failed to unify its image and brand under a single mark and, instead, was forced to compete directly against EnerSys, a company that had the right to use Exide's own name.

3. On April 15, 2002, Exide initiated Chapter 11 bankruptcy proceedings. Pursuant to 11 U.S.C. § 365, Exide thereafter filed a series of notices to reject certain agreements between Exide and Yuasa Battery (America), Inc., the predecessor in interest of EnerSys. These rejected agreements include four agreements[2] relating to the licensing of the EXIDE trademark, which agreements were deemed a "fully integrated, unambiguous document" (and which will be referred to collectively as "the Integrated Agreement") by the bankruptcy court. Over the objection of EnerSys, the bankruptcy court authorized Exide's rejection of the Integrated Agreement in its April 3, 2006 opinion and order.

4. **Analysis.** The bankruptcy court, in a well reasoned and detailed opinion, concluded that the Integrated Agreement was an executory contract

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[2] The Trademark and Trade Name License Agreement dated June 10, 1991 ("the Trademark License Agreement"); (b) the Asset Purchase Agreement dated June 10, 1991 ("the Asset Purchase Agreement"); (c) the Administrative Services Agreement dated June 10, 1991 ("the Services Agreement"); and (d) a letter agreement dated December 27, 1994 between Ernest J. Choquette and Bernard F. Stewart ("the Letter Agreement").

subject to rejection under the auspices of § 365. There is no error of fact or law in that conclusion.

a. The four agreements, properly deemed to be "integrated," were all rejected.

b. The Integrated Agreement constituted an executory contract. More specifically, the Integrated Agreement imposed ongoing obligations on the part of both parties[3] and the failure to perform these obligations would constitute a material breach excusing performance of the other party.[4] For these same reasons, it is clear from the language of the Integrated Agreement that the EXIDE trademark was licensed, not assigned.

c. In the event of rejection of an executory contract, the holder of such contract is left with a claim for rejection damages, unless provided with additional protection under 11 U.S.C. § 365(n). Given that trade names, trademarks, and other proprietary marks are expressly excluded from the definition of "intellectual property" in § 365(n), EnerSys is left with only a claim for breach. *See* In re HQ Global Holdings, Inc., 290 B.R. 507, 513 (Bankr. Del. 2003). As a result of the rejection, therefore, Exide's obligation to allow EnerSys to use the EXIDE trademark was extinguished. *Id.*

d. Given the unusual situation at bar, that is, a debtor forced to compete against its own trade-

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[3] *See* Bk. No. 02-11125, D.I. 5377 at 6-7.

[4] For example, see paragraphs 2, 5, 8 and 12 of the Trademark License Agreement.

mark, there is more than sufficient evidence in the record to support the bankruptcy court's business judgment finding.

5. **Conclusion.** For the reasons stated, the appeal is denied and the decision of the bankruptcy court affirmed.

/s/ Sue L. Robinson
United States District Judge

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
EXIDE TECHNOLOGIES, et al.,	:	Bk. No. 02-1125-KJC (Jointly Administrered)
Debtors.	:	

OPINION[1]

BY: KEVIN J. CAREY, UNITED STATES BANKRUPTCY JUDGE

INTRODUCTION

Exide Technologies, Inc. and its affiliated debtors, as debtors and debtors in possession in the above-captioned matter (collectively "Exide"), seek approval from this Court to reject certain agreements entered into with EnerSys, Inc. ("EnerSys").[2] EnerSys vigor-

[1] This Opinion constitutes the findings of fact and conclusions of law required by FED.R.BANKR.P. 7052. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 1334 and 157(a). This is a core proceeding pursuant to 28 U.S.C. § 157(b)(1) and (b)(2)(A) and (O).

[2] Upon the Debtor's motion (Docket No. 17), the Court entered an Order (by my predecessor in this case, The Honorable John C. Ackerd) (Docket No. 62) establishing a procedure for rejection of executory contracts, pursuant to which Exide now has filed the four Notices of Rejection (Docket Nos. 1614, 1615, 1617 and 1618). For ease of reference, these Notices will be referred to collectively as Exide's "Motion" or "Motion to Reject."

ously opposes Exide's decision to reject, contending that the agreements are not executory and that even if they are, Exide did not exercise proper business judgment in making such decision. After an arduous and lengthy pre-trial period, hearings were held on March 3, 4, 5, 12, 17, 25, 26 and 31, 2004, to consider Exide's rejection of the agreements.

For the reasons set forth below, I will approve Exide's decision to reject the agreements.

BACKGROUND

In 1991, Exide entered into a series of agreements with EnerSys for the sale of substantially all of Exide's industrial battery division. The parties executed over twenty-three agreements as part of the transaction. The following four agreements are at the heart of this dispute: (1) the Trademark and Trade Name License Agreement, dated June 10, 1991 ("Trademark License"), (2) the Asset Purchase Agreement, dated June 10, 1991, (3) the Administrative Services Agreement, dated June 10, 1991, and (4) a letter agreement, dated December 27, 1994 (col-

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At the time Exide entered into the agreements with EnerSys, Exide's name was Exide Corporation. However, after it merged with GNB Technologies, Inc. in 2000, Exide changed its name to Exide Technologies. EnerSys was known as Yuasa Battery (America), Inc. at the time the agreements were executed. Sometime afterward, Yuasa Battery (America), Inc. changed its name to Yuasa-Exide, Inc. and merged with Yuasa, Inc. in 1998. Yuasa, Inc. survived the merger and in 2000 changed its name to EnerSys. For the purposes of this Opinion, the terms Exide and EnerSys will include their predecessors when applicable.

lectively, all four are referred to herein as the "Agreement").[3] I ruled previously that the Agreement is a fully integrated, unambiguous document. *See* 11/20/03 Tr. 25:23-26:4; 3/12/04 Tr. 3:18-4:22.

As part of the transaction, EnerSys paid in excess of $135 million at closing. In exchange for such payment, EnerSys received various assets, including manufacturing plants, equipment and certain intellectual property rights. Certain Exide employees in the industrial battery division became EnerSys employees.

Exide owns a trademark that it used in connection with its transportation battery business (the "Exide mark").[4] Exide wanted to continue to use the Exide mark outside of the industrial battery business. Conversely, EnerSys wanted to use the Exide mark in the industrial battery business. To accommodate the needs of both parties, Exide granted EnerSys a perpetual, exclusive, royalty-free license to use the Exide mark in the industrial battery business. This way, Exide retained ownership of the mark and could use it outside the industrial battery

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[3] Exide also sought to reject two other agreements, (I) the Administrative Services Agreement dated April 1, 1992, and (ii) the Miscellaneous Services Agreement dated April 1, 1992. Enersys did not oppose Exide's rejection of the Miscellaneous Services Agreement and withdrew its objection to rejection of the 1992 Administrative Services Agreement. EnerSys asserts that neither of these two agreements remain in effect and that neither is related to the 1991 transaction. EnerSys Trial Brief at 3, n. 3.

[4] For purposes of this Opinion, reference to the "Exide mark" includes those marks licensed to Enersys under the Agreement, as well as the trade name "Exide".

business and EnerSys could use the mark exclusively within the industrial battery business. The license of the Exide mark was subject to certain conditions and could be terminated as set forth in the Agreement.

For almost a decade following the closing of the transaction, the parties enjoyed a relatively amicable business relationship. In the year 2000, the parties agreed to the early termination of a ten-year non-competition agreement, which termination allowed Exide to re-enter the industrial battery business. Shortly after the non-competition agreement was terminated, Exide re-entered the industrial battery business when it purchased GNB Industrial Battery Company.

Prior to re-entering the industrial battery business, Exide's strategic goal was to unify its corporate image, including all of its brands that it used on the various products that Exide produced. The single name and mark that Exide wanted to use was "Exide." Its corporate name was Exide and Exide believed that there was significant goodwill attached to that name. However, EnerSys had the exclusive right to use the Exide mark in the industrial battery business. Exide made several unsuccessful prepetition overtures to EnerSys in attempts to regain the Exide mark. Exide's chapter 11 proceeding now provides it with the opportunity to regain the Exide mark by rejecting the Agreement. EnerSys has objected to the rejection.[5]

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[5] EnerSys's President and CEO, Mr. John Craig, described poignantly the tenor of this dispute when he testified that "Ex-

DISCUSSION

The Court is called upon to determine whether the Agreement is an executory contract and, if so, whether Exide exercised proper business judgment in rejecting the Agreement.

I. Rejection of the Agreement.

An executory contract must be assumed or rejected *in toto*. *See Sharon Steel Corp.* v. *National Fuel Gas Distribution Corp.*, 872 F.2d 36, 41 (3d Cir. 1989); In re Teligent, Inc., 268 B.R. 723, 728 (Bankr. S.D.N.Y. 2001). A contract will not be bifurcated into parts that will be rejected and those that will not. *See In re Metro Transp. Co.*, 87 B.R. 338, 342 (Bankr. E.D. Pa. 1988). Correspondingly, all of the contracts that comprise an integrated agreement must either be assumed or rejected, since they all make up one contract. *See Philip Servs. Corp.* v. *Luntz (In re Philip Servs., Inc.)*, 284 B.R. 541, 547-548 (Bankr. D. Del. 2002), *aff'd* 303 B.R. 574 (D. Del. 2003); In re Karfakis, 162 B.R. 719, 725 (Bankr. E.D. Pa. 1993). EnerSys contends that rejection must be denied because Exide failed to reject all of the agreements executed between the parties (not just the agreements at the center of dispute in this case), but I have already determined that the Trademark License, the Asset Purchase Agreement, the Administrative Services Agreement, and the December 27, 1994, letter agreement all comprise one, integrated agreement.

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ide ... is trying to ... steal back the [Exide] trademark and I don't think that is fair." *See* 3/12/04 Tr. 176:1-4.

II. Is the Agreement Executory?

Section 365(a) of the Bankruptcy Code allows debtors in possession to reject an executory contract.[6] *See* 11 U.S.C. § 365(a). The party seeking to reject a contract bears the burden of demonstrating that it is executory. *See DSR, Inc.* v. *Manuel (In re Hamilton Roe Int'l, Inc.),* 162 B.R. 590, 593 (Bankr. M.D. Fla. 1993); *In re Rachels Industries, Inc.,* 109 B.R. 797, 802 (Bankr. W.D. Tenn. 1990).

In determining whether a contract is executory and, hence, subject to rejection, courts in this Circuit utilize the Countryman standard, which provides that a contract is executory when "the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other." Vern Countryman, *Executory Contracts in Bankruptcy: Part I,* 57 Minn. L. Rev. 439, 460 (1973); *Sharon Steel,* 872 F.2d at 39; In re Waste Systems Int'l, Inc., 280 B.R. 824, 826-827 (Bankr. D. Del.2002). "Thus, unless both parties have unperformed obligations that would constitute a material breach if not performed, the contract is not executory under § 365." *Enterprise Energy Corp.* v. *United States (In re Columbia Gas Sys., Inc.),* 50 F.3d 233, 239 (3d Cir. 1995). Con-

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[6] 11 U.S.C. § 365(a) provides:

> [e]xcept as provided in sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor.

sequently, I must determine whether both parties have unperformed material obligations under the Agreement. *See Columbia Gas,* 50 F.3d at 239; Waste Systems Int'l, 280 B.R. at 827; In re Access Beyond Technologies, Inc., 237 B.R. 32, 43 (Bankr. D. Del. 1999). In doing so, I look initially at the "four corners" of the Agreement. *See Shoppers World Community Ctr., L.P.* v. *Bradlees Stores, Inc. (In re Bradlees Stores, Inc.),* 2001 WL 1112308, at *8, 2001 U.S. Dist. LEXIS 14755, at *27 (S.D.N.Y. September 20, 2001) ("the executoriness analysis examines an agreement on its face to determine whether there are material obligations that require substantial performance from the parties").

"The time for testing whether there are material unperformed obligations on both sides is when the bankruptcy petition is filed." *Columbia Gas,* 50 F.3d at 240; *see* Waste Systems Int'l, 280 B.R. at 827; In re HQ Global Holdings, Inc., 290 B.R. 507, 510 (Bankr. D. Del. 2003). Exide sought chapter 11 relief on April 15, 2002. To determine whether the Agreement contained any material obligations as of April 15, 2002, I must "consider contract principles under relevant nonbankruptcy law." *Columbia Gas,* 50 F.3d at 240 n.10. The parties designated New York as their choice of law governing the Agreement.

A. Material Obligations

Under New York law, an obligation is material if a breach of the same "would justify the other party to suspend his own performance, or ... defeat the purpose of the entire transaction." Lipsky v. Commonwealth United Corp., 551 F.2d 887, 895 (2d Cir. 1976);

accord Bradlees Stores, 2001 WL 1112308, 2001 U.S. Dist. LEXIS 14755, at *25. That is, an obligation is material if it relates to the root or essence of the contract. *See Medical Malpractice Ins. Ass'n* v. *Hirsch (In re Lavigne),* 114 F.3d 379, 387 (2d Cir.1997); *see also Philip Services,* 284 B.R. at 547. An obligation must be material at the time the agreement is executed.

Exide contends that the following are material obligations under the Agreement:

> (1) Exide must refrain from suing EnerSys for trademark infringement for the use of the Exide mark (i.e., must permit EnerSys to use the Exide mark) ("the Use Grant");
>
> (2) EnerSys must refrain from using the Exide mark outside of the industrial battery business ("EnerSys's Use Restriction");
>
> (3) Exide must refrain from using the Exide mark within the industrial battery business ("Exide's Use Restriction");
>
> (4) EnerSys must maintain a minimum level of quality for its products that contain the Exide mark ("the Quality Standards");
>
> (5) Exide must make payments into a pension plan maintained for the benefit of its employees ("Pension Plan Obligation");
>
> (6) Exide must maintain the registration of the Exide mark ("Registration Obligation");

(7) Exide and EnerSys must indemnify each other from and against certain costs, losses, liabilities, damages, lawsuits, claims, etc. ("Indemnification Obligations"); and

(8) Exide and EnerSys must cooperate with one another after the closing of the Agreement in order to effectuate certain provisions contained therein ("Further Assurances Obligations").

1. Paragraph 13.6 of the Asset Purchase Agreement.

EnerSys claims that paragraph 13.6 of the Asset Purchase Agreement makes clear that none of the foregoing obligations are material, because Exide's remedies are limited to those remedies contained in paragraph 13.6 of the Asset Purchase Agreement, which provides:

Exclusive Remedies. The indemnification provided for in this Article XIII shall be the exclusive remedy available to any Indemnitee against any Indemnitor for any Damages hereunder to the exclusion of all other common law or statutory remedies, including without limitation the right to contribution under CERCLA or analogous state law; *provided*, however, that notwithstanding the foregoing, the parties hereby agree that failure of the parties to perform certain of their respective obligations under this Agreement or the Ancillary Agreements may result in consequences to the non-breaching party for which money

> damages may not be sufficient. In such case, the non-breaching party shall be entitled to seek specific performance and other equitable relief, which shall be cumulative and non-exclusive of any other remedy available to such non-breaching party pursuant to this Article XIII.

EnerSys contends that Exide does not have the right to terminate all future performance under the Agreement upon default because Exide's remedies are limited strictly to indemnification, or equitable relief, when monetary damages prove to be insufficient. If Exide cannot terminate its performance upon default, which element is necessary to satisfy the Countryman test, EnerSys argues that the Agreement cannot be executory.[7]

Paragraph 13.6 of the Asset Purchase Agreement

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[7] Exide argues that EnerSys is precluded from making this argument because EnerSys failed to identify it in response to Exide's contention interrogatories or at any time prior to its closing argument. Insofar as EnerSys failed to identify this argument until closing arguments, EnerSys waived its right to assert the same. *See, e.g., Thorn EMI N. America, Inc.* v. *Intel Corp.*, 936 F. Supp. 1186, 1191 (D. Del. 1996), *aff'd*, 157 F.3d 887 (Fed. Cir. 1998), *cert. denied* 526 U.S. 1112 (1999) (holding that party is prevented from raising a claim or defense that was not adequately described in a response to a contention interrogatory or joint pre-trial order); *CPC Int'l, Inc.* v. *Archer Daniels Midland Co.*, 831 F.Supp. 1091, 1102-1103 (D. Del. 1993), *aff'd* 31 F.3d 1176 (Fed. Cir. 1994), *cert. denied* 513 U.S. 1184 (1995) (finding that ADM waived the right to assert certain matters as defenses to CPC's claims of infringement by failing to identify them in response to CPC's interrogatories and by failing to include them in the draft pretrial order). Even were I to consider EnerSys's argument, the argument fails.

does not preclude Exide from terminating performance under the Agreement. When viewing paragraph 13.6 in relation to the other provisions of the Asset Purchase Agreement, it is apparent that paragraph 13.6 relates solely to claims for indemnification. The Asset Purchase Agreement contains a separate article regarding termination. Furthermore, the language of paragraph 13.6 suggests that the non-breaching party is entitled to equitable relief in addition to monetary relief with respect to any claim for indemnification. It does not, as EnerSys argues, limit a non-breaching party's remedies under the Agreement solely to indemnification or equitable relief.

2. Paragraph 8 of the Trademark License.

Paragraph 8 of the Trademark License provides:

> *Termination.* Licensor shall have the right to terminate this Trademark License if (a) products covered hereunder and sold by Licensee in connection with the Licensed Marks fail to meet the Qaulity Standards, or (b) Licensee uses, assigns or sublicenses its rights under the Licensed Trade Name or the Licensed Marks outside the scope of the Licensed Business[8] and, in either such case, reasonable measures are not initiated to cure such failure or improper use within ninety (90) days after written notice from Licensor. Upon termina-

[8] Licensed Business refers to the industrial battery business (*see* paragraphs 1[A] and [B] of the Trademark License).

> tion of this Trademark License, Licensee and its sublicensees shall, within a reasonable period of time not to exceed two (2) years, discontinue all use of the Licensed Marks and Licensee shall discontinue all use of the Licensed Trade Name and shall cancel all filings or registrations made pursuant to Paragraph 10 hereof and change its corporate or trade name registrations, if any, to exclude the Licensed Trade Name; provided, however, that if any failure to meet Quality Standards or improper use of, or assignment or sublicense of rights under, the Licensed Trade Name or Licensed Marks occurs in any jurisdiction other than the United States and is not remedied as permitted hereunder, this Trademark License will terminate only with respect to the jurisdiction in which such failure or improper use occurred.

EnerSys's Use Restriction and the Quality Standards are material, since both relate to the foundation of the Agreement.[9] These restrictions are necessary because they protect Exide's, as well as EnerSys's, interests in the Exide mark. A default of either would result in a material breach. Therefore, EnerSys's agreement to refrain from using the Exide mark outside of the industrial battery business, as well as to maintain quality standards set for the mark, are material components to which EnerSys remained subject as of the petition date.

If EnerSys violates its Use Restriction or the

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[9] *See* section II.A.3. of this Opinion, *infra*.

Quality Standards, Exide may terminate the Trademark License. Contrary to EnerSys's contentions, a breach of its Use Restriction or the Quality Standards allows Exide to terminate the Agreement, not simply the Trademark License, because the Agreement is an integrated contract. Consequently, Exide may terminate the performance of any of its remaining obligations under the Agreement upon the breach of either obligation.

3. Conditions vs. Obligations

Alternatively, EnerSys contends that its Use Restriction and the Quality Standards are not obligations under the Agreement, but are conditions. Because the failure of a condition cannot result in a material breach, EnerSys argues that the Use Restriction and the Quality Standard cannot satisfy the Countryman test.

There is a critical distinction in the law between the failure of a condition and a breach of a duty (i.e., a promise).[10] *See* Columbia Gas, 50 F.3d at 241. "While a contracting party's failure to fulfill a condition excuses performance by the other party whose performance is so conditioned, it is not, without an

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[10] "A promise is 'a manifestation of intention to act or refrain from acting in a specified way, so made as to justify a promisee in understanding that a commitment has been made.'" *Merritt Hill Vineyards, Inc.* v. *Windy Heights Vineyard, Inc.*, 61 N.Y.2d 106, 112 (1984) quoting Restatement (Second) of Contracts § 2(1)(1981). "A condition, by comparison, is 'an event, not certain to occur, which must occur, unless its nonoccurrence is excused, before performance under a contract becomes due.' " *Id.*, at 112 quoting Restatement (Second) of Contracts § 224 (1981).

independent promise to perform the condition, a breach of contract subjecting the nonfulfilling party to liability for damages." *Merritt Hill Vineyards, Inc.* v. *Windy Heights Vineyard, Inc.*, 61 N.Y.2d 106, 113 (N.Y. 1984) (citing Restatement (Second) of Contracts § 225). A party is not in breach of contract if a condition does not occur unless that party is under a duty to cause the occurrence of such condition. *See Columbia Gas*, 50 F.3d at 241. Whether a particular term of an agreement imposes a duty or is a condition is a matter of contract interpretation. Id., at 241.

a. The Quality Standards.

Paragraph 5 of the Trademark License, which concerns the Quality Standards, provides, in relevant part, that:

> [l]icensee shall maintain the standards of quality set by Licensor for the conduct of the Licensed Business under the Licensed Trade Name and the goods bearing the Licensed Marks which Licensor established prior to the execution of this Trademark License (the "Quality Standards").[11]

It is apparent that the parties intended the Quality Standards to be an affirmative undertaking rather than a condition. EnerSys agreed affirmatively to maintain the standards of quality for the mark set by Exide. As such, the Quality Standards are an obliga-

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[11] Exide had established quality standards prior to the execution of the Agreement. *See* 3/3/04 Tr. 69:20-71:18.

tion. *See, e.g., HQ Global Holdings,* 290 B.R. at 510 (noting that franchisees' duty to maintain quality standards under license was an obligation). EnerSys also argues that, even if the Quality Standards are material, Exide waived performance of EnerSys's duty to comply with the Quality Standards because Exide failed, *inter alia,* to enforce them. As a result, according to EnerSys, the Quality Standards cannot serve as a basis for executoriness to satisfy the Countryman test.

Paragraph 5 of the Trademark License also provides that:

> [l]icensee agrees to furnish to Licensor, upon Licensor's request, representative samples of all labels, advertising materials and other associated materials used in the sale, offering for sale, or marketing of goods bearing the Licensed Trade Name or Licensed Marks to enable Licensor to confirm that the labeling and advertising meet the Quality Standards.

The evidence established that Exide did devote some effort at monitoring the quality of EnerSys's batteries bearing the Exide mark. Exide inspected EnerSys's plants and batteries, tested the batteries and received technical data about the batteries from EnerSys. *See* 3/3/04 Tr. 68:11-69:19. These efforts provided Exide with information about the quality of EnerSys's batteries. Exide was satisfied that EnerSys met the Quality Standards. Moreover, Exide was under no affirmative duty to track regularly and

monitor the quality of EnerSys's products that contained the Exide mark to ensure that EnerSys was complying with the Quality Standards. Likewise, EnerSys's duty to comply with the Quality Standards was not made contingent upon Exide's efforts at monitoring EnerSys's products.

The circumstances here demonstrate that the quality control measures exercised by Exide were sufficient.[12] There was no evidence that EnerSys was not complying with the Quality Standards. The record reflects that Exide did not receive any reports from within the industrial battery industry regarding any significant problems with the quality of EnerSys's batteries. If anything, the evidence established that EnerSys was making high quality products. Indeed, EnerSys claims that it is the leading manufacturer of motive power batteries in the world.

b. EnerSys's Use Restriction.

Paragraph 2 of the Trademark License provides, in relevant part, that:

> Licensor hereby grants to Licensee, and Licensee hereby accepts from Licensor, ... a perpetual, exclusive, world-wide, royalty-free license to use the Licensed Trade Name as a corporate

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[12] The level of control required depends upon the particular circumstances of each case. *See United States Jaycees* v. *Philadelphia Jaycees*, 639 F.2d 134, 140 (3d Cir. 1981). *Cf. Creative Gifts, Inc.* v. *UFO*, 235 F.3d 540, 548 (10th Cir. 2000) (holding that a licensee is estopped from arguing that the licensor lost its rights in its mark because the licensor did not exercise adequate quality control over licensee's use of the mark).

> name or trade name within the scope of the Licensed Business, and a non-exclusive, perpetual, world-wide, royalty-free license to use the Licensed Trade Name in connection with the motorcycle battery business, but only as part of the trade name or corporate name "Yuasa-Exide, Inc." While retaining the corporate name "Yuasa-Exide, Inc.", Licensee may sell products in businesses other than the Licensed Business and the motorcycle battery business but Licensee shall not sell such products under the Licensed Trade Name and shall sell such products under an assumed name, fictitious name or through some other mechanism whereby the Licensed Trade Name is not used before the public or trade in relation to such products.
>
> Licensor hereby grants to Licensee, and Licensee hereby accepts from Licensor, ... a perpetual, exclusive, world-wide, royalty-free license to use the Licensed Marks within the scope of the Licensed Business on and in connection with the goods for which such Licensed Marks are registered or as otherwise permitted under applicable law within the scope of the Licensed Business ...

Furthermore, paragraph 8 of the Trademark License provides, in relevant part, that:

> Licensor shall have the right to terminate this Trademark License if ... Licensee uses, assigns or sublicenses it rights under the Licensed Trade Name or the Licensed Marks outside

the scope of the Licensed Business ....

Under these two provisions, EnerSys is permitted to use the Exide mark within the industrial battery market. Although there is no affirmative undertaking by EnerSys actually to use the Exide mark, EnerSys is obliged to use the mark only in accordance with the terms of the Agreement. *See Novon Int'l, Inc. v. Novamont (In re Novon Int'l. Inc.)*, 2000 WL 432848, at *4, 2000 U.S. Dist. LEXIS 5169, at *12 (W.D.N.Y. March 31, 2000). EnerSys must observe the restrictions imposed by the grant of the license; the EnerSys's Use Restriction is an affirmative undertaking, or, obligation. *Id.*

4. Materiality of the Obligations

Lastly, EnerSys contends that notwithstanding the terms of paragraph 13.6 of the Asset Purchase Agreement and paragraph 8 of the Trademark License, none of the obligations identified by Exide are material.

a. The Use Grant.

Pursuant to the Use Grant, Exide is obligated to allow EnerSys to use the Exide mark subject to the terms of the Trademark License. In connection with the Use Grant, Exide also agreed to prosecute all substantial claims of infringement and oppose all attempted registrations of potentially confusing trademarks, trade names or service marks (paragraph 17 of the Trademark License). This is a material obligation. *See, e.g., Lubrizol Enterprises, Inc.* v. *Richmond Metal Finishers, Inc. (In re Richmond*

Metal Finishers, Inc.), 756 F.2d 1043, 1046 (4th Cir. 1985), *cert. denied* 475 U.S. 1057 (1986) (holding that the licensor's contingent duty to defend infringement suits was a material obligation).[13]

b. EnerSys's Use Restriction and the Quality Standard.

For the reasons previously set forth, EnerSys's Use Restriction and the Quality Standard are ongoing material obligations.[14]

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[13] Exide also has an ongoing duty to refrain from suing EnerSys for infringement of the mark. *See Everex Sys., Inc.* v. *Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673, 677 (9th Cir. 1996); *Novon Int'l*, 2000 WL 432848, at *4, 2000 U.S. Dist. LEXIS 5169, at *12; *Access Beyond Technologies*, 237 B.R. at 43. This is important since a "licensor's promise to refrain from suing the licensee for infringement is the raison d'etre for a [trademark] license." *Id.* A default by Exide in performing this duty would cause a material breach since EnerSys would no longer be getting the benefit of its bargain, i.e., the use of the mark. Thus, the Use Grant is a material obligation.

[14] Exide also argues that the extensive negotiations surrounding the terms of the Trademark License evidences the materiality of EnerSys's Use Restriction and the Quality Standard. In support of this argument, Exide sought to introduce certain exhibits (Exide exhibits. 27, 28, 29, 30, 31 and 32) relating to the negotiations of the Agreement and prior drafts of the Agreement. EnerSys objected to the admission of Exide exhibits 27-32 on the grounds that such documents violated the parol evidence rule.

According to New York law, "where the parties have reduced their agreement to an integrated writing, the parol evidence rule operates to exclude evidence of all prior or contemporaneous negotiations between the parties offered to contradict or modify the terms of their writing." *Marine Midland Bank-Southern* v. *Thurlow*, 53 N.Y.2d 381, 387 (1981); *see Holland* v.

c. Exide's Use Restriction.

The Use Grant gives EnerSys an exclusive license to use the Exide mark within the industrial battery business. It would be contrary to the terms of the Use Grant that Exide be permitted to use the Exide mark within the industrial battery business. Indeed, Exide agreed not to grant any licenses to third parties which would be inconsistent with EnerSys's use of the mark. This agreement, in and of itself, is a material obligation of Exide. *See, e.g., Otto Preminger Films, Ltd.* v. *Qintex Entertainment, Inc. (In re Qintex Entertainment, Inc.),* 950 F.2d 1492, 1496 (9th

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Ryan, 307 A.D.2d 723, 724 (N.Y. App. Div. 4th Dept. 2003); *see also In re Worldcorp, Inc.*, 252 B.R. 890, 895 (Bankr. D. Del. 2000).

I have already concluded that the Agreement was a fully integrated, unambiguous document. Thus, the parol evidence rule is applicable. *See Marine Midland Bank*, 53 N.Y.2d at 387; *see, e.g., Fr. Winkler KG* v. *Stoller*, 839 F.2d 1002, 1005 (3d Cir.1988) (noting that before the parol evidence rule can be applied, there must be a determination as to whether the parties have adopted a writing as the final and complete expression of their agreement).

However, Exide offers exhibits 27-32 only to demonstrate the materiality or importance of the provisions of the Trademark License. Such evidence is not barred by the parol evidence rule. *See, e.g., Chevron U.S.A. Inc.* v. *El-Khoury*, 285 F.3d 1159, 1165 (9th Cir. 2002), *amended by, reh'g denied* No. 00-57126, 2002 U.S. App. LEXIS 9128 (9th Cir. May 14, 2002) (holding that the parol evidence rule does not bar the consideration of earlier draft agreements for purposes of demonstrating the parties' intent with respect to the importance of the terms in the agreement). Exide Exhibits 27-32 were not offered for the purpose of varying, contradicting or interpreting the terms of the Agreement.

Cir. 1991) (holding that the licensor's duty to refrain from selling the rights to subdistribute movies to third parties was a significant obligation); *Fenix Cattle Co.* v. *Silver (In re The Select-A-Seat Corp.)*, 625 F.2d 290, 292 (9th Cir. 1980) (holding that because of the exclusive nature of the license which the licensee received, the licensor was under a continuing obligation not to sell its software packages to third parties). Therefore, an agreement by Exide to forbear from using the Exide mark in the industrial battery business is a continuing, material obligation. *See, e.g., HQ Global Holdings*, 290 B.R. at 510 (holding that the franchisor's agreement to refrain from using the proprietary marks in the exclusive territories of the franchisees was an ongoing material obligation as of the petition date).

d. Pension Plan Obligations.

Under the Agreement, Exide was obligated to contribute to certain employee pension plans. Specifically, paragraph 7.2(b) of the Asset Purchase Agreement provides, in relevant part, that:

> With respect to all defined benefit plans maintained by Seller as of the Closing Date ... Seller agrees that it shall be solely responsible to employees and former employees of the Division with respect to pension benefits accrued thereunder as of the Closing Date. Seller agrees to vest the Subject Employees immediately after such Closing Date in their accrued benefits, if any, under the Exide Hourly Employees' Pension Plan, the Exide Retirement Income Security Plan, and the Exide Corpo-

rate Pension Plan as of the Closing Date.

Furthermore, paragraph 7.3(a) of the Asset Purchase Agreement provides:

> With respect to the Exide Savings Plan (the "Savings Plan") and the Exide Salaried Retirement Plan (the "Retirement Plan"), except as otherwise provided, Seller agrees that it shall be solely responsible to Subject Employees with respect to benefits accrued thereunder as of the Closing Date. Seller further agrees to vest the Subject Employees immediately following such Closing Date in their respective accounts, if any, under the Savings Plan and the Retirement Plan. Seller shall contribute to each said plan, in accordance with the terms of said plans, all amounts attributable to employees and former employees of the Division which are owed to or under the plans as of the end of the plan year last preceding the Closing Date.

Exide submitted sufficient evidence at hearing demonstrating that it has been paying and will continue to pay millions of dollars to the Exide Hourly Employees' Pension Plan until there are no more participants in the plan.[15] *See* 3/4/04 Tr. 107:13-

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[15] EnerSys complains that Exide should be precluded from arguing that the Pension Plan Obligations demonstrate that the Agreement is executory because in its response to EnerSys's first set of interrogatories, Exide failed to identify pension plan contributions under paragraph 7.2 of the Asset Purchase Agreement (dealing with Defined *Benefit* Plans). In its response to EnerSys's interrogatories, Exide instead identified

109:14. Contributions to pension plans are considered ongoing, material obligations. *See, e.g.*, In re The Bastian Co., Inc., 45 B.R. 717, 720-721 (Bankr. W.D.N.Y. 1985) (finding that pension plan contributions were ongoing, material obligations). Failure by Exide to make contributions to the plans could subject EnerSys to claims by employees and EnerSys, in turn, could assert claims against Exide.[16] The Pension Plan Obligations are material, ongoing obligations under the Agreement.

c. Registration Obligation.

Exide contends that it is obligated to maintain registration of the Exide mark under the Agreement. Specifically, paragraph 12 of the Trademark License provides, in relevant part, that:

> Licensor shall maintain Licensed Marks in accordance with Licensor's usual and customary

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paragraph 7.3 of the Asset Purchase Agreement (dealing with Defined *Contribution* Plans) as a remaining material obligation under the Agreement. In addition, EnerSys claims that Exide did not present any evidence at trial concerning contributions made pursuant to paragraph 7.3 of the Asset Purchase Agreement.

Although Exide may have identified erroneously the applicable benefit plan in its interrogatory response, I will not preclude use of the correct benefit plan and Exide's obligations in connection therewith. Exide supported its claim concerning its pension plan obligations from evidence that was introduced at hearing. EnerSys had ample opportunity then to challenge such evidence.

[16] EnerSys acknowledged this much in its post-trial submissions. *See also* footnote 17, *infra*.

> business practices. In the event that Licensor intends in good faith to cease payment of maintenance fees for or otherwise allow to lapse any of the Licensed Marks in a particular country, Licensor will notify Licensee of its intention to take such action at least one hundred twenty (120) days in advance ... except in the case where Licensor intends to refile an application to register such Licensed Mark covering goods within the scope of the Licensed Business ....

EnerSys argues that the Registration Obligation is not really an obligation, since paragraph 12 also provides that if Exide intends to cease support of the Licensed Marks, all it need do is notify EnerSys in advance. Failure to maintain the marks or to give the appropriate notice could very well deprive EnerSys of the benefit of its bargain. I conclude that the affirmative duty to maintain the Licensed Marks and the added duty to give notice to EnerSys upon any expected lapse of the Licensed Marks, taken together, are material, ongoing obligations of Exide.

Moreover, under the Agreement, EnerSys must refrain from making an application for or otherwise attempting to register the Exide mark in the United States Patent and Trademark Office or other similar agency in any foreign country or state, except where required by law (*see* paragraph 10 of the Trademark License). EnerSys is also required to execute and obtain registered user agreements for countries which require registration of the use of a trademark under a license. These are an ongoing, material obligations of EnerSys.

f. Indemnification Obligations.

In the Agreement, the parties agree to indemnify each other against certain liabilities and cooperate in the defense of indemnified claims (*see* Article 13 of the Asset Purchase Agreement). In addition, EnerSys agrees to indemnify Exide against claims arising in connection with EnerSys's use of the Exide mark. These obligations to indemnify in the Agreement "carry significant burdens and create considerable benefits." *See Philip Services*, 284 B.R. at 549. Insofar as claims for indemnification can still arise under the Agreement (and the parties recognize the possibility of such),[17] the obligation to indemnify is ongoing and material since unperformed obligations remain under the Agreement for both parties. *See, e.g.*, Qintex Entertainment, 950 F.2d at 1496 (holding that the licensor's duty to indemnify and defend the licensee was a significant obligation); *Richmond Metal Finishers*, 756 F.2d at 1046 (holding that the licensor's contingent duty of indemnifying the licensee was material); *Philip Services*, 284 B.R. at 549-550 (holding that indemnity provisions constituted ongoing, material obligations since neither party completed performance of the contract and obligations remained to be performed).

g. Further Assurances Obligations.

Paragraph 9.9 of the Asset Purchase Agreement

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[17] EnerSys acknowledged in its post-trial submissions that if Exide failed to honor its obligations to contribute to the pension plans, it could seek indemnification from Exide for claims made by employees.

provides:

> Seller hereby acknowledges that its assistance may be required from time to time to enable Purchaser to record or perfect title in, or otherwise to consummate more effectively, the transaction contemplated in this Article IX with respect to the Assigned Marks, the Assigned Letters Patent, the Proprietary Rights, and the Intellectual Property Rights, and Seller agrees that after the Closing and at the request of Purchaser or its designee, at the cost or expense of Purchaser (except in relation to United States patents, trademarks and applications therefor), Seller will (or will cause its Affiliates, as applicable, to) use all reasonable efforts to execute and deliver such other documents and take such other actions as may reasonably be requested by Purchaser or its designee to record the transfer to Purchaser or its designee of the rights assigned herein, or otherwise to consummate more effectively the transactions contemplated in this Article IX.[18]

This common type of provision requires the parties to execute certain documents or undertake other acts to effectuate the intellectual property transactions provided for in the Agreement. This duty is ongoing, and, without such assurances, the parties may not be able to effectuate or maintain their intellectual property-related rights as required in the Agreement.

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[18] Article IX of the Asset Purchase Agreement deals with intellectual property-related matters, including assignment and licensing.

Thus, the Further Assurances Obligations, even if seldom invoked, are ongoing, material obligations.

B. Performance of the Obligations

EnerSys contends that no material obligations existed as of the petition date because both parties substantially performed the Agreement. I disagree. As discussed above, both parties had a number of material obligations under the Agreement to perform as of the petition date and, therefore, could not have rendered substantial performance. At a minimum, EnerSys remained obligated to use the Exide mark in accordance with the terms of the Agreement. *See Novon Int'l*, 2000 WL 432848, at *4, 2000 U.S. Dist. LEXIS 5169, at *12. The Agreement included a license and a license imposes a number of ongoing performance obligations on the part of the parties. *See In re Kmart Corp.*, 290 B.R. 614, 618 (Bankr. N.D. Ill. 2003).

C. Sale vs. License.

In a related argument, EnerSys claims that the Agreement evidences a "closed sale" transaction rather than a license and, therefore, cannot be executory. While there was a sale aspect to the Agreement, the Exide mark was not one of the assets that EnerSys purchased. Rather, the Agreement granted to EnerSys only a right to use the Exide mark. Title to the Exide mark remained with Exide despite the fact that EnerSys was granted a royalty-free, exclusive license.[19] EnerSys cannot transfer or sublicense

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[19] *See* section III.B.4.a of this Opinion, *infra*.

it without Exide's consent.[20] Exide retained ownership and control over the use of the mark.

The Agreement was the result of an arm's-length transaction between two well-represented, sophisticated businesses. EnerSys might have bargained for an assignment of the Exide mark, if available, rather than only a license for the right to use it.[21] Indeed, EnerSys obtained assignments of other marks. The Agreement makes clear which marks were assigned (*see* paragraph and schedule 9.1 of the Asset Purchase Agreement) and which marks were licensed, such as the Exide mark (*see* paragraphs 2.1[c] and 9.5 and schedule 9.5 of the Asset Purchase Agreement). Moreover, the Agreement reflects that EnerSys purchased only those marks and other intellectual property that were to be assigned (*see* paragraph 2.1[a][vi] of the Asset Purchase Agreement).

I conclude that the Agreement is a license with respect to the Exide mark: "[g]enerally speaking, a license agreement is an executory contract as such is contemplated in the Bankruptcy Code." *Novon Int'l*, 2000 WL 432848, at *4, 2000 U.S. Dist. LEXIS 5169,

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[20] EnerSys must seek Exide's consent to transfer or sublicense the Exide mark. *See Kmart Corp.*, 290 B.R. at 618 (finding that the licensee's duty to seek consent of the licensor to transfer the licensed material is an ongoing requirement of the licensee under the license agreement).

[21] EnerSys complains that the license could not be structured as a sale because Exide also continued use of the mark for itself. This required that the transaction be structured as a license, under the express terms of which the license to be was "perpetual." A non-debtor party's expectation that its transaction will not later be unwound in bankruptcy is common, but not dispositive under § 365.

at *12; *accord* Kmart Corp., 290 B.R. at 618. *See also Matter of Superior Toy & Mfg. Co., Inc.*, 78 F.3d 1169, 1176 (7th Cir. 1996) (trademark license was an executory contract); *HQ Global Holdings*, 290 B.R. at 511 (trademark license was an executory contract); *Blackstone Potato Chip Co., Inc.* v. *Mr. Popper, Inc. (In re Blackstone Potato Chip Co., Inc.)*, 109 B.R. 557, 560 (Bankr. D.R.I. 1990) (trademark license was an executory contract); *In re Chipwich, Inc.*, 54 B.R. 427, 430 (Bankr. S.D.N.Y. 1985) (trademark license was an executory contract).[22]

III. Did Exide's Decision to Reject the Agreement Satisfy the Business Judgment Test?

The propriety of a decision to reject an executory contract is governed by the business judgment standard. *See Group of Institutional Investors* v. *Chicago, Milwaukee, St. Paul, and Pacific R. Co.*, 318 U.S. 523, 550 (1943); *HQ Global Holdings*, 290 B.R. at

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[22] EnerSys attempts to distinguish those cases finding a trademark license to be an executory contract on the grounds that: (1) the licenses did not involve an integrated contract for the sale of a business, (2) the licenses involved continuing royalty obligations, or (3) there were cross-licenses. EnerSys's argument on all three grounds misses the point. First, that the Agreement is integrated is not dispositive. The issue of whether a number of agreements are integrated is separate from whether an integrated agreement is executory. *See Blackstone Potato Chip*, 109 B.R. at 560 (The court, considering a license agreement along with a number of side agreements, determined the integrated agreement was an executory contract). Second, that there may be no continuing royalty obligations or cross-licenses here is not dispositive, either. The relevant issue is whether any material obligations remain under the Agreement. So long as there are any material, ongoing obligations, a license may be an executory contract.

511; In re Trans World Airlines, Inc., 261 B.R. 103, 120-121 (Bankr. D. Del. 2001); *Wheeling-Pittsburgh Steel Corp.* v. *West Penn Power Co. (In re Wheeling-Pittsburgh Steel Corp.)*, 72 B.R. 845, 845-846 (Bankr. W.D. Pa. 1987).

A court is required to examine whether a reasonable business person would make a similar decision under similar circumstances. *See In re Vencor, Inc.*, 2003 WL 21026737, at *3, 2003 Bankr. LEXIS 659, at *8 (Bankr. D. Del. April 30, 2003). This is not a difficult standard to satisfy and requires only a showing that rejection will benefit the estate. *See* Sharon Steel, 872 F.2d at 39-40; *HQ Global Holdings*, 290 B.R. at 511; *In re Patterson*, 119 B.R. 59, 60 (E.D. Pa. 1990); *Wheeling-Pittsburgh*, 72 B.R. at 846.[23]

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[23] As a leading bankruptcy treatise explained:

> [i]n the nonbankruptcy corporate law context, the business judgment rule is typically invoked after-the fact, when an allegedly improvident management decision has already been made and put into effect. In those cases, the courts concern themselves with the process by which the decision was made, not the wisdom or consequences of a decision that in retrospect turned out to be wrong. In contrast, in chapter 11, the business judgment rule is often invoked before-the-fact, when a trustee or debtor in possession proposes to undertake a transaction that is, or alleged to be, outside the ordinary course of business, or one that by statute requires court authorization, such as the assumption or rejection of an executory contract. In these cases, the courts are, understandably, not only concerned with the process by which the decisions were made, but also with the effect the business decision will have on the estate and the chapter 11 process.

7 Lawrence P. King, Collier on Bankruptcy, ¶ 1108.07[2], at 1108-16 (15th ed. revised 2003).

A. **Exide's Decision-Making Process.**

Exide claims that its decision to reject the Agreement was the result of a deliberative and thoughtful process. EnerSys contends, however, that Exide's decision-making was insufficient to satisfy the business judgment standard. The Court must not substitute its own judgment for that of Exide's. *See* Vencor, 2003 WL 21026737, at *3, 2003 Bankr.LEXIS 659, at *8.

Exide's chairman and CEO, Craig Muhlhauser, testified that it was his decision, ultimately, to reject the Agreement and he did so based upon the advice of his management team and his own business judgment.[24] *See* 3/4/04 Tr. 22:14-19. Muhlhauser testified that having unrestricted use of the Exide mark was necessary to achieve the goal of unifying Exide and, therefore, he believed the Agreement should be rejected. *See* 3/4/04 Tr. 22:23-23:6. Muhlhauser and other Exide officials believed Exide needed to "unify" so that it could compete effectively in the marketplace. *See* 3/3/04 Tr. 78:15-84:3, 179:5-16; 3/4/04 Tr. 35:17-36:22, 161:15-162:6, 175:14-176:13.

Furthermore, there was considerable testimony from members of Muhlhauser's management team (upon whom Muhlhauser relied) concerning Exide's pre-bankruptcy efforts in attempting to develop a strong, unified corporate name, unify its products

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[24] Although the decision to reject was discussed with Exide's board, it does not appear that their express approval was sought. *See* 3/4/04 Tr. 29:23-25, 33:5-14.

under a common brand, and decrease confusion in the marketplace. *See* 3/3/04 Tr. 85:4-110:22, 180:1-10. In Exide's view, critical to achieving these goals was getting the Exide mark back. *See* 3/3/04 Tr. 92:8-24, 98:23-102:7; 3/4/04 Tr. 23:1-6, 173:24-175:17. Exide officers approached EnerSys several times to discuss ways of returning the Exide mark to Exide. *See* 3/3/04 Tr. 98:23-99:11, 106:23-107:6; 3/12/04 Tr. 133:18-134:19. Based upon these longsought-after goals, Exide seeks to reject the Agreement. *See* 3/3/04 Tr. 116:14-18, 180:18-184:12.

The evidence reveals that Exide spent considerable time and effort in studying its business operations, customer relations, competitive positioning and its general needs in formulating its strategic goal. Exide undertook additional analyses concerning its decision to reject. These sales forecasts (contained in Exide exhibits 155, 156 and 157) (the "Forecasts") assessed the expected impact on Exide's business of this Court's decision to approve rejection. *See* 3/3/04 Tr. 110:23-111:4; 185:1-186:1. That these Forecasts were undertaken demonstrate Exide's efforts at reviewing its rejection decision.[25]

Based upon the foregoing, I conclude that Exide undertook appropriate steps in reaching its decision to reject the Agreement.[26] Exide's decision took into

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[25] EnerSys claims that the Forecasts are inadmissible because they are irrelevant and are based on hearsay. This argument lacks merit. *See* section III.B.1 of this Opinion, *infra*.

[26] EnerSys offered exhibit 253, which was Exide's supplemental response to an interrogatory request, to demonstrate that Exide attempted belatedly to justify its decision to reject the Agreement. The exhibit concerned a meeting of Exide per-

sonnel at which confidential information was discussed. Exide objected to the exhibit's admission on the grounds that: (1) Exide did not rely on the information contained in the exhibit at trial, and (2) the parties expressly agreed that the information contained in the exhibit would not be part of the trial record, irrespective of which exhibit contained that information. Exide further claims that this Court endorsed this agreement between the parties. The information in EnerSys exhibit 253 apparently contains confidential information that Exide does not want disseminated to the public or, more importantly, shared with EnerSys.

After reviewing the record, it does not appear that there was an agreement between the parties to exclude the information contained in EnerSys exhibit 253 from admission into evidence. If anything, the parties disagreed over the use and admissibility of the information contained therein. Indeed, Exide's counsel commented during trial that the parties were like "two ships passing in the night" with respect to the use of the information contained in EnerSys exhibit 253. *See* 3/3/04 Tr. 26:1. The agreement that Exide alludes to in its post-trial submissions appears to concern inadvertent disclosures of documents that the parties agreed not to use. *See* 3/3/04 Tr. 26:6-28:1.

The fact that Exide did not rely upon the information contained in the exhibit at trial is irrelevant. Under Fed.R.Civ.P. 33, answers to interrogatories are admissible in evidence to the extent permitted by the Federal Rules of Evidence. FED.R.CIV.P. 33(c); *see, e.g., Kelly* v. *Crown Equip. Corp.*, No. 91-1143, 1991 WL 208771, at *5, 1991 U.S. Dist. LEXIS 14452, at *12 (E.D. Pa. October 4, 1991). A verified response to an interrogatory request, such as that contained in EnerSys exhibit 253, may be admissible as an admission by a party opponent under Fed.R.Evid. 801(d)(2). *See, e.g., Tamez* v. *City of San Marcos*, 118 F.3d 1085, 1098 (5th Cir.1997), *cert. denied* 522 U.S. 1125 (1998). Clearly, EnerSys exhibit 253 is admissible under Fed.R.Evid. 801(d)(2)(A), since it is being offered against Exide and is a statement made by Exide (in its representative capacity, of course). EnerSys exhibit 253 is admissible and Exide's objection is overruled.

account the potential benefits, as well as the harms, in rejecting the Agreement.

B. Impact of Rejection on the Estate.

1. Qualitative Benefits of Rejection

EnerSys contends that Exide failed to demonstrate that the estate will benefit from rejection. Exide responds that rejecting the Agreement will result in both qualitative and quantitative benefits to the estate. Under the circumstances present, I conclude that the qualitative benefits alone, namely, brand unification and elimination of confusion in the marketplace, are sufficient to support the Debtor's decision to reject.

The evidence submitted by Exide demonstrates that brand unification will likely make Exide more competitive. Neil Bright, President of the Industrial Energy Business Unit of Exide, testified that the

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However, I recognize that the information contained in EnerSys exhibit 253 is confidential and that disclosure of the same may be inimical to Exide's competitive interests. Under appropriate circumstances, material introduced at trial may be safeguarded against disclosure afterwards. *Poliquin* v. *Garden Way, Inc.*, 989 F.2d 527, 533 (1st Cir. 1993). *See also, e.g., Jochims v. Isuzu Motors, Ltd.*, 151 F.R.D. 338, 341-342 (S.D. Iowa 1993) (trial exhibits containing confidential technical and commercial information were to remain sealed from the public). At the request of the parties the entire record of this proceeding was ordered sealed. Certain witnesses, including some of the parties themselves, were excluded during certain testimony, resulting in various levels of confidentiality. It is appropriate to seal EnerSys exhibit 253 and any testimony relating thereto and make it available only to the Court and to counsel for the parties.

lack of brand unification has hurt Exide's customer relations and made Exide less competitive because of the increased costs that Exide's customers incur as a result of dealing with different battery brands. *See* 3/3/04 Tr. 78:15-79:6, 100:21-101:8, 108:12-109:9. Reducing Exide's customers' costs would certainly improve its current customer relations and may even increase its customer base.

Furthermore, Bright indicated that Exide risks losing market share because it is unable to "present a unified face [for all of its brands] in front of the customer." *See* 3/3/04 Tr. 79:1-6. In this sense, Exide's customers are having trouble making the connection that the different brands Exide is using are actually associated with Exide. *See* 3/3/04 Tr. 75:9-76:10; 3/4/04 Tr. 172:12-20. This problem is two-fold: (1) customers may not use products that they do not believe are associated with Exide and (2) customers do not believe that Exide has global capabilities (because Exide appears to be a fractured company) which, according to Exide, is what customers want. *See* 3/3/04 Tr. 96:14-97:3, 100:21-101:8, 177:5-8; 3/12/04 Tr. 90:4-9. Indeed, one of EnerSys's own witnesses testified that EnerSys had lost market share because of a lack of focus on a single brand. *See* 3/12/04 Tr. 89:8-22. By unifying the brand, Exide expects to diminish these problems and become more competitive. Thus, an increase in Exide's competitive advantage is a benefit to the estate.

Eliminating confusion in the marketplace with respect to the Exide mark will also benefit the es-

tate.[27] Both Mitchell Bregman, the President of Exide Industrial Energy Americas Business, and Bruce Cole, the Vice President of Marketing for the Industrial Energy Business Unit, testified that Exide is continually having to explain to its customers that it does not produce industrial batteries that contain the Exide mark even though it is Exide. *See* 3/3/04 Tr. 181:17-182-16; 3/4/04 Tr. 170:5-24. Exide's customers do not understand why an industrial battery that contains the Exide mark is not manufactured by the company with the same name. *See* 3/3/04 Tr. 181:6-15. As a result of such confusion, Exide has devoted considerable efforts at trying to reduce the confusion and differentiate its products. *See* 3/3/04 Tr. 182:6-15; 3/4/04 Tr. 171:1-24. By eliminating the confusion over the Exide mark, Exide will no longer have to continue with its efforts to reduce confusion (and incur any of the costs associated therewith) and can freely exploit the Exide mark. Cole testified that confusion over the Exide mark frustrates customers. *See* 3/4/04 Tr. 172:23-173:12. Like brand unification, elimination of confusion will likely improve Exide's customer relations.[28]

2. Quantitative Benefits of Rejection

While the qualitative benefits alone justify rejection, the quantitative benefits of rejection further

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[27] The evidence establishes that there was confusion in the marketplace concerning the Exide mark.

[28] While the evidence suggests that Exide's post-bankruptcy marketing efforts may have contributed somewhat to the confusion in the marketplace, the confusion existed before such marketing efforts.

support Exide's decision to reject the Agreement.

Exide's evidence suggests that achieving brand unification will decrease some of Exide's operating costs. Bright testified that Exide currently uses a large number of brands on its industrial batteries and that maintaining all of these brands is expensive. *See* 3/3/04 Tr. 101:9-15. Having only one corporate brand to maintain would likely decrease Exide's expenses and any reduction in expenses is a benefit to the estate. *See, e.g., HQ Global Holdings,* 290 B.R. at 512 (holding that reduction in the debtor's advertising costs was a benefit to the estate). Likewise, Exide's expert witness, Scott Phillips, testified that brand unification would increase Exide's effectiveness and efficiency in its marketing efforts, which could also reduce Exide's costs. *See* 3/4/04 Tr. 134:14-135:8; 141:7-142:19.[29]

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[29] Phillips also testified that brand unification would permit Exide to pursue a variety of umbrella branding strategies. *See* 3/4/04 Tr. 134:14-135:8. Umbrella branding involves the use of a core brand in combination with other brand names or businesses. *See* 3/4/04 Tr. 135:14-136:1. According to Phillips, umbrella branding brings "greater focus and identity to the branding strategy of a company" and helps "create greater brand awareness, particularly in ... a global economy and where companies are increasingly dependent upon global customers." *See* 3/4/04 Tr. 136:2-9. However, Phillips conceded that umbrella strategies are not always appropriate, especially where there is a heightened need for local appeal. *See* 3/4/04 Tr. 152:16-152:13. While it is not entirely clear whether a global or regional branding strategy is better suited for the industrial battery industry, or the commercial power battery market in general, at least Exide will have the opportunity to exploit a global a strategy if it believes it is appropriate to do so. Having this option is a benefit to Exide.

The sales analyses conducted by Exide demonstrate that rejection will likely benefit the estate; Exide will realize an increase in sales revenue from rejection. Exide believes that the information contained in the Forecasts demonstrates that rejection would result in an increase in its sales revenue. While the exact amount of any increase in revenue may be undetermined-whatever the amount-the estate will benefit. Exide will be allowed to use the mark in a business in which it was previously prohibited from so doing, and, in combination with its own name. Bregman testified that Exide believes its sales will increase by combining the Exide mark with its corporate name. *See* 3/3/04 Tr. 183:7-12.

EnerSys argues that the Forecasts are inadmissible because much of the information contained therein (confidential material) has been redacted, thereby rendering such exhibits so unreliable as to be irrelevant. While significant portions of the analysis were redacted, perhaps diminishing the usefulness of the remaining information, the Forecasts still provide some useful information concerning the quantitative benefit of Exide's decision to reject the Agreement.[30] Questions concerning the reliability, accuracy or completeness of a document go to the weight of the evidence, not its admissibility. *See Greener* v. *The Cadle Co.*, 298 B.R. 82, 92 (N.D. Tex. 2003). Based upon the foregoing, Exide Exhibits 155-157 are relevant.

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[30] Given that the parties are each other's main competitor and the information in the exhibits were confidential, it was necessary that Exide exhibits 155-157 contained redactions.

EnerSys claims that the Forecasts, even if relevant, are inadmissible because they do not meet the requirements of the business records exception to the hearsay rule.[31] Here, the testimonies of Bright and Cole establish that Exide employees prepared the Forecasts contained in exhibits 155-157 based upon Exide's own internal data. *See* 3/3/04 Tr. 111:19-112:8; 3/4/04 Tr. 184:25-201:1. Second, it appears that the information contained in the Forecasts was recorded at or near a time it was obtained. Third, both Bright and Cole testified that it was a routine practice for Exide to conduct such type of analyses. *See* 3/3/04 Tr. 112:17-112:21; 3/4/04 Tr. 186:8-186:17. Finally, Bright testified credibly that the information obtained from conducting analyses, such as the ones contained in the Forecasts, to be reliable. *See* 3/3/04 Tr. 112:22-115:8. EnerSys argues that the Forecasts were neither the product of a regularly conducted business activity nor regularly kept in the ordinary course of business; the Forecasts were created solely for the purposes of the present litigation. Documents created expressly for the purpose of litigation do not fall within the business records exception because they lack the requisite indicia of reliability and

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[31] Exide seeks to admit exhibits 155-157 under the business record exception. Consequently, it does not appear that the parties dispute that Exide exhibits 155-157 are hearsay. EnerSys argues that the exhibits contain double hearsay in that Exide must not only establish that the exhibits themselves fall within the business records exception, but that the information from which the exhibits were created must also fall within one of the exceptions to the hearsay rule. The information contained in the exhibits was provided by Exide personnel (under a direction and duty to do so), rather than from any outside source, and was derived from Exide's own business data.

trustworthiness that are necessary for the business records exception to apply. *See Palmer* v. *Hoffman*, 318 U.S. 109 (1943), *reh'g denied* 318 U.S. 800 (1943); *United States* v. *Casoni*, 950 F.2d 893, 910-911 (3d Cir. 1991); *Certain Underwriters at Lloyd's, London* v. *Sinkovich*, 232 F.3d 200, 205 (4th Cir. 2000).

The Forecasts are a part of Exide's continual decision-making efforts concerning the proposed rejection. Obviously, it was important for Exide to conduct the analyses to quantify, as best it could, the effect of its decision to reject the Agreement and determine whether its decision to reject was appropriate.

EnerSys also contends that the testimonies of Bright and Cole concerning these exhibits and the analyses contained therein should be stricken from the record because they lack foundation. EnerSys argues that Bright and Cole did not perform any of the calculations or Forecasts contained in the exhibits and otherwise have no firsthand knowledge about them.

Rule 803(6) of the Federal Rules of Evidence does not require that foundation evidence for the admission of business records be provided by the actual custodian of the records. *See United States* v. *Console*, 13 F.3d 641, 656-657 (3d Cir. 1993); *United States* v. *Pelullo*, 964 F.2d 193, 201 (3d Cir. 1992). Rather, "other qualified witnesses" are permitted to lay a foundation and those whom may fall within this rubric is broad. *See Console*, 13 F.3d at 657; Pelullo, 964 F.2d at 201. Indeed, a qualified witness need only have a familiarity with a business' record-

keeping practices and be able to attest that:

> (1) the declarant in the records had personal knowledge to make accurate statements; (2) the declarant recorded the statements contemporaneously with the actions that were the subject of the reports; (3) the declarant made the record in the regular course of the business activity; and (4) such records were regularly kept by the business.

See Console, 13 F.3d at 657; Pelullo, 964 F.2d at 201.

Based upon the record, Bright and Cole are both "other qualified witnesses" who are permitted to lay a foundation for the admission of Exide exhibits 155-157 as business records. Bright testified generally about the electronic data warehouse system ("the System") Exide used in gathering the information for the analyses contained in the exhibits, the purpose of System, how Exide uses the System, and the System's usefulness in his decision-making process. *See* 3/3/04 110:23-115:8. Cole further expounded upon the use and purpose the System, the origin of the data in the exhibits, the rationale of the analyses performed, and who prepared the analyses set forth in the exhibits. *See* 3/4/04 Tr. 184:25-201:1, 241:10-241:15. It is apparent from the record that Bright and Cole have sufficient personal knowledge of the System used to prepare the analyses contained in Exide exhibits 155-157, as well as the persons who prepared them; consequently, Bright and Cole may provide by their testimony the foundational require-

ments for the admission of business records.[32] *See, e.g., United States* v. *Console,* 13 F.3d at 657 (the witnesses familiarity with the office record-keeping system enabled her to attest to each of the foundation requirements for the admission of an Accident Book as a business record). Exide exhibits 155-157 are relevant and admissible under the business records exception. Accordingly, EnerSys's objection is overruled and such exhibits will be considered by the Court.

In sum, the evidence demonstrates that there will be both qualitative and quantitative benefits to the estate from the rejection of the Agreement. I now consider whether EnerSys's potential rejection damage claim outweighs these benefits.

3. Rejection Damages

EnerSys argues that rejection of the Agreement will result in such a large rejection damage claim that it will outweigh any of the potential benefits identified by Exide. Exide contends that EnerSys has exaggerated its potential rejection damage claim because, *inter alia,* EnerSys did not take into account any mitigation of damages in calculating its rejection damages. Both parties relied upon expert testimony concerning the potential impact of rejection on EnerSys and both seek to discredit the testimony of each other's experts.

The impact of EnerSys's potential rejection dam-

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[32] I concluded already that Exide exhibits 155-157 qualify as business records.

age claim on the estate is relevant in determining the appropriateness of Exide's decision to reject.[33] *See, e.g., Vencor,* 2003 WL 21026737, at *3, 2003 Bankr. LEXIS 659, at *8-9 (holding that it was appropriate to consider the avoidance of a large rejection damage claim); *In re Sun City Invs., Inc.,* 89 B.R. 245, 249 (Bankr. M.D. Fla. 1988) (denying the debtor's motion to reject a contract because rejection would create a large claim against the estate, which would not be in the estate's best interest). In reviewing the impact of a rejection damage claim, I not need determine the exact amount of EnerSys's rejection damage claim.[34] Rather, I need only determine if the rejection claim would be so large as to make Exide's decision to reject the Agreement unreasonable.

EnerSys claims that it will suffer more than $67 million in damages as a result of rejection.[35] In sup-

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[33] In determining the benefit to the estate, the burden or impact that rejection will have on a nondebtor party is not a factor to be considered in determining the propriety of a decision to reject. *See Trans World Airlines,* 261 B.R. at 123; *Patterson,* 119 B.R. at 61; *Wheeling-Pittsburgh Steel,* 72 B.R. at 847. In other words, there is no balancing of the interests of the estate against the interests of other parties to the contract being rejected. *See Trans World Airlines,* 261 B.R. at 123; *Wheeling-Pittsburgh Steel,* 72 B.R. at 848; *see also, Patterson,* 119 B.R. at 61; *see also Robertson* v. *Pierce (In re Chi-Feng Huang),* 23 B.R. 798, 801-802 (9th Cir. BAP 1982). Thus, any negative impact of rejection on EnerSys itself is irrelevant in determining the propriety of Exide's decision to reject the Agreement.

[34] The determination of the amount of EnerSys's rejection damage claim is not now before this Court.

[35] EnerSys's rejection damage claim breaks down as follows:

port of such claim, EnerSys presented two expert witnesses, Dr. Warren Keegan (marketing and branding expert) and Brian Blonder (valuation expert). Keegan's opinion pertained to his survey of the motive power battery industry, which survey measured the impact of rejection on the Exide brand and on Exide's marketing communications. Blonder's opinion concerned the effect of rejection, primarily focusing on the amount of damages EnerSys would incur as a result.

Exide contends that the testimony of Keegan and Blonder should be disregarded because they are wholly unreliable and incredible; however, Exide's objections go to the weight to be accorded such testimony, not its admissibility.[36] In considering the appropriate weight to accord each witness, a court may accept all of a witness' testimony, reject all of it, or accept some and reject other parts depending upon

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Harm to EnerSys if Rejection
Summary

Damage Element	$(In Millions)
Lost Price Premium (Price Erosion)	$37
Incremental - Cost-Switching to New Brand	$11
Lost Investment	$11
Lost Profit on Lost Sales	$12
Total Damages	$71
Present Value of Total Damages	$67

[36] *See Kannankeril* v. *Terminix Int'l, Inc.*, 128 F.3d 802, 809 (3d Cir. 1997).

the credibility of the witness. *See Bennun* v. *Rutgers State Univ.*, 941 F.2d 154, 179 (3d Cir. 1991), *reh'g denied* 941 F.2d 154 (3d Cir. 1991), *cert. denied* 502 U.S. 1066 (1992).

Keegan concluded that rejection will harm EnerSys because of marketplace confusion (*see* 3/12/04 Tr. 248:5-253:9); however, the imposition of a transition period will likely reduce, if not eliminate, such confusion. As such, Keegan's survey evidence does little to convince me that EnerSys will likely suffer the magnitude of damages asserted as a result of rejection, especially if measures are put into place that will mitigate marketplace confusion.

Blonder testified that his $67 million damage assessment would remain essentially unaffected by any change in the assumptions or conditions he relied upon in formulating his opinion. *See* 3/26/04 Tr. 87:13-90:2, 109:19-114:19. This position simply undermines Blonder's credibility, particularly when he opines that the damage claim would be unaffected by a transition period. If mitigation efforts, over time, are taken into account, EnerSys's rejection damage claim will likely be far less than $67 million.[37]

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[37] Phillips' offered rebuttal testimony concerning the duration of harm in the lost advertising category of damages, set forth in Section VII of Blonder's expert report (entitled "Loss of Return on Historical Investment Brand"). EnerSys objected to this testimony on the ground that such testimony was precluded by a prior order of this Court. Specifically, this Court ordered Phillips to produce a certain advertising study upon which he was basing a portion of his opinion and, unless Phillips produced this study, Exide would be precluded from offer-

While the magnitude of possible damage to EnerSys as a result of rejection remains undetermined, it is evident that EnerSys will not incur the magnitude of damages it claims or an amount even close to that figure. EnerSys's claim for damages is speculative at best. I conclude, based upon this record, and for purposes of the proposed rejection, that EnerSys's eventual unsecured damage claim will be substantially less than $67 million.

Even if EnerSys's $67 million claim were to be allowed, it will not have as large an impact on the estate as EnerSys suggests. That dollar amount, al-

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ing rebuttal testimony from Phillips relating to the duration of harm in Section VII of Blonder's expert report.

It is undisputed that Phillips never produced the advertising study. Further, Exide does not contest that Phillips is precluded from offering rebuttal testimony regarding the duration of harm in Section VII of Blonder's expert report because of Phillip's failure to produce the study. Thus, to the extent that Phillips rebuttal testimony relates to the duration of harm depicted in Section VII of Blonder's expert report, it is stricken from the record and will not be considered.

With regard to the remainder of Phillips' rebuttal testimony, EnerSys argues that it is flawed and without a credible basis. Phillips offered an analysis which calculated the fair value of the Exide mark to EnerSys. Phillips calculated the amount of this value to be $8.4 million. *See* 3/26/04 Tr. 172:5-173:4. Phillips testified that the damage EnerSys would suffer as a result of rejection would bear some relationship to this value. *See* 3/26/04 Tr. 174:19-175:10. While this "fair market" analysis may provide some perspective concerning the amount of EnerSys's true rejection damages, it is not necessarily a complete measure of damages in this instance. This "fair market" approach fails to capture all of the damages that a licensee may incur as a result of losing a trademark, such as the costs of creating and establishing a new mark.

though large in absolute terms, must be compared to the approximately $900 million of unsecured claims filed in this case. *See* 3/31/04 Tr. 28:1-2. When viewed in a proper perspective, an additional $67 million will not diminish the dividend to unsecured creditors sufficiently to render Exide's decision to reject unreasonable.[38]

The most dramatic indication that rejection is in the best interests of creditors comes from the position taken by the unsecured creditors themselves. After close of the evidence, the Official Committee of Unsecured Creditors (the "Committee") filed a post-hearing statement (Docket No. 4202) fully supporting Exide's Motion to reject the Agreements.

In its Statement, the Committee says, *inter alia:*

....

> ...general unsecured creditors would bear 100% of the rejection damages claims, but would own only 10% of the common stock of the reorganized Debtors plus warrants. Therefore, the burden and benefit of rejecting the Trademark License would have a disproportionate impact on general unsecured creditors. Each of the existing general unsecured creditors would be impacted by double dilution: (a) a diluted benefit because of the minority position in the reorganized Debtors' equity

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[38] The Debtor argues that, under Exide's plan, unsecured creditors will receive approximately 20 to 22 cents on the dollar. *See* 3/31/04 Tr. 28:10-11.

and (b) a diluted share of that minority position as a result of an increase in the aggregate amount of general unsecured claims once EnerSys's rejection damages are included. As such, the Debtors' decision to reject the Trademark License should be judged based on its impact upon general unsecured creditors because they are most directly and adversely affected. *See, e.g., In re Klein Sleep Products, Inc.*, 78 F.3d 18, 25 (2d Cir. 1996) (judging rejection of executory contract using best interests of unsecured creditors); *In re Kong*, 162 B.R. 86, 96 (Bankr. E.D.N.Y. 1993) ("Central to this showing 'is the extent to which a rejection will benefit the general unsecured creditors of the estate.' ").

4. The Committee is persuaded that rejecting the Trademark License provides a net benefit to general unsecured creditors even after accounting for the double dilution effects described above. This conclusion is based on EnerSys's failure to demonstrate that rejection of Executory License would result in the $65 million rejection damages claimed by EnerSys. EnerSys bears the burden of proof with respect to the size of its damages, but the Committee is not persuaded by EnerSys's supporting evidence. EnerSys's estimates of its damages are excessive, are unrealistic, and, most significantly, exclude EnerSys's legal obligation to mitigate its damages. Such mitigation is straightforward since Exide is offering EnerSys a transition plan whereby EnerSys can reduce its potential damages significantly.

> Therefore, the Committee is convinced that EnerSys's allowable claim against the Debtors' estates would be very small, especially since, among other things, the Debtors would be willing to accept a transition plan that is intentionally designed to minimize the loss of EnerSys's sales.
>
> ...Therefore, by authorizing and approving a transition plan as part of its ruling on the rejection of the Trademark License, the Bankruptcy Court would fulfill Congress' desire that bankruptcy courts use their equitable powers to provide appropriate remedies when trademark licenses are rejected by debtors.

Statement, ¶¶ 3-5.

It is particularly appropriate here to give substantial weight to the views of the general unsecured creditors, the *only* constituents (besides EnerSys) in this chapter 11 proceeding who would suffer any ill effects of rejection.[39] This support is a significant factor weighing in favor of permitting rejection. *See Wheeling-Pittsburgh Steel*, 72 B.R. at 850 (in upholding the debtor's decision to reject, the court noted that "quite significantly, the official committee of unsecured creditors, which has been very active in this

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[39] The Committee and the Debtor were at bitter odds throughout nearly all of the pre-confirmation phase of this chapter 11. *See In re Exide Technologies*, 303 B.R. 48 (Bankr. D. Del. 2003). Although the plan ultimately confirmed was largely a consensual plan, I easily conclude that this is no committee which would willingly (or quietly) suffer any unnecessary harm at the hands of the Debtor.

case, supports the debtor's decision to reject the Contract. It cannot be supposed that the committee of unsecured creditors, which is duty bound to act in the best interests of unsecured creditors, would support a decision which is inimical to the best interests of the debtor's estate and unsecured creditors").

The impact of EnerSys's rejection damage claim against the estate will not be so large that it would cause a reasonable business person not to reject the Agreement.

4. Reversion of the Exide Mark

EnerSys contends that the rejection of the Agreement will not result in a benefit to the estate because, upon rejection, Exide will not have the exclusive right to use the Exide trademark. EnerSys's argument is two-fold. First, EnerSys claims that title to the Exide mark (for use on industrial batteries) already passed to EnerSys in June 1991, when the parties entered into the Agreement. As such, rejection has no effect on EnerSys's right to use the mark. Second, EnerSys claims that rejection of the Agreement does not result in its termination and, therefore, EnerSys retains its right to use the Exide mark. Both arguments lack merit.

a. Title to the Exide Mark.

EnerSys's argument concerning the transfer of title to the Exide mark is an offshoot of its argument that the Agreement was a "closed sale" transaction. However, for the reasons already discussed herein, with respect to the Exide Mark, the Agreement is not

a sale, but a license.

As previously noted, the Agreement identifies which marks were assigned to EnerSys (*see* paragraph and schedule 9.1 of the Asset Purchase Agreement) and which marks were licensed to EnerSys (*see* paragraph and schedule 9.5 of the Asset Purchase Agreement). The Exide mark is listed in the category of those marks that were licensed to EnerSys. And with respect to those marks that were licensed to EnerSys, including the Exide mark, paragraph 9 of the Trademark License provides, in relevant part, that:

> [l]icensee shall acquire no right, title or interest with respect to the Licensed Marks or the Licensed Trade Name as a result of Licensee's use thereof in commerce or otherwise and Licensee acknowledges and agrees that all rights in and to the Licensed Marks and the Licensed Trade Name and the good will pertaining thereto belong exclusively to, and shall inure to the benefit of, Licensor.

Thus, there was never a transfer of ownership in the Exide mark. Rather, title to the Exide mark remained with Exide.

b. Termination Upon Rejection.

EnerSys has pointed to authority for the proposition that rejection does not terminate an executory contract (*see Lavigne*, 114 F.3d at 387; *Columbia Gas*, 50 F.3d at 239 n.8); however, none of the authority cited in support of such proposition involved

trademark licenses. Rather, there is authority directly contradicting this proposition in the context of the rejection of trademark licenses. *See, e.g., HQ Global Holdings,* 290 B.R. at 513 (holding that rejection terminates a trademark license); *Raima UK Ltd.* v. *Centura Software Corp. (In re Centura Software Corp.),* 281 B.R. 660, 673-674 (Bankr. N.D. Cal. 2002) (holding that rejection terminates a trademark license). In its trial brief, EnerSys argues that the decisions in *HQ Global Holdings* and *Centura Software* are flawed because their holdings are not reconciled with cases that hold that rejection does not equate to a termination of an executory contract. The unique nature of intellectual property licenses requires different treatment than non-intellectual property-related contracts upon rejection.

Moreover, Bankruptcy Code § 365(n) does not provide EnerSys with any protection from the consequences of rejection. Section 365(n)(1) provides that, upon rejection of an executory contract in which the debtor is a licensor of intellectual property, a licensee may elect either:

> (A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable non-bankruptcy law, or an agreement made by the licensee with another entity; or
>
> (B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under ap-

> plicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced ...

11 U.S.C. § 365(n).

The term "intellectual property", as used in § 365(n), is defined as a:

> (A) trade secret; (B) invention, process, design, or plant protected under title 35; (D) plant variety; (E) work of authorship protected under title 17; or (F) mask work protected under chapter 9 of title 17; to the extent protected by applicable nonbankruptcy law.

11 U.S.C. § 101(35A). It is clear from the plain language of this definition that trademarks are excluded. *See HQ Global Holdings*, 290 B.R. at 513 (finding that trade names, trademarks and other proprietary marks are not included within the definition of intellectual property). *See also Centura Software*, 281 B.R. at 669-670 (noting that "Congress has ... expressly withheld § 365[n] protection from rejected executory trademark licenses"). Thus, trademark licensees, such as EnerSys, cannot use § 365(n) to elect to retain their rights to use a mark after re-

jection.[40]

Various decisions support the view that Exide is excused from its contractual obligations under the Agreement, including its obligation to allow EnerSys to use the Exide mark. *See Lavigne*, 114 F.3d at 387 (noting that rejection frees the estate from its obligation to perform); *HQ Global Holdings*, 290 B.R. at 513 ("[t]he result of the [d]ebtors' rejection of the [a]greements is that they are relieved from the obligation to allow the [f]ranchisees to use their proprietary marks"). Rejection of the Agreement leaves EnerSys without the right to use the Exide mark. *Id.*;

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[40] EnerSys concedes that § 365(n) does not apply to trademark licenses, but argues that a negative inference should not be drawn from the fact that Congress granted protection to certain licensees in § 365(n) but not trademark licensees. I disagree.

Congress enacted § 365(n) in response to the Fourth Circuit's decision in *Richmond Metal Finishers*. *See HQ Global Holdings.*, 290 B.R. at 513 n. 5; *Centura Software*, 281 B.R. at 668. In *Richmond Metal Finishers*, the Fourth Circuit held that the licensee only had a claim for monetary damages under § 365(g) upon the debtor's rejection of a technology license. *Richmond Metal Finishers*, 756 F.2d at 1048. Rejection of the technology license agreement resulted in its termination and the licensee no longer had the right to use the technology. *Id.*

In enacting § 365(n), Congress sought to protect intellectual property licensees from such a result. Congress certainly could have included trademarks within the scope of § 365(n) but saw fit not to protect them. Therefore, the holding in *Richmond Metal Finishers*, as well as the holdings in the other pre and post § 365(n) trademark rejection cases cited herein, still retain vitality insofar as they relate to trademark licenses. As a result, a trademark license is terminated upon rejection and the licensee is left only with a claim for damages. *See HQ Global Holdings*, 290 B.R. at 513; *Centura Software*, 281 B.R. at 673.

Centura Software, 281 B.R. at 674-675 (holding that licensee is not entitled to retain any rights in the trademarks as a result of the rejection of the trademark agreement); *Blackstone Potato Chip*, 109 B.R. at 562 (approving the debtor's motion to reject a license agreement and ordering the return of trademarks and trade names to the debtor); *see also Chipwich*, 54 B.R. at 431 (holding that upon rejection of the trademark licenses, the licensee only has a claim for damages).

The primary benefit to rejecting a trademark license is reacquiring the right to use the mark in whatever capacity or market in which use by the licensor was previously excluded and extinguishing the licensee's right to use it. Taken to its logical end, EnerSys' argument that a licensee's right to use a trademark does not revert back to the licensor upon rejection means that a rejection of a trademark license would never offer meaningful relief to the debtor. This would be an absurd result. Under these circumstances, Exide's obligation to allow EnerSys to use the Exide mark is extinguished upon rejection.

IV. Transition Period

Since the exclusive use of the Exide mark in connection with industrial battery market will revert back to Exide, it is appropriate to fashion a transition period to mitigate any potential damage and business disruption that EnerSys may suffer as a result of losing the Exide mark. Other courts have utilized transition periods in connection with the rejection of an executory contract or unexpired lease. *See, e.g.*, *HQ Global Holdings*, 290 B.R. at 514 (allowing

for a 30-day transition period to phase out the franchisees' use of a proprietary mark); *In re Texas Health Enters., Inc.*, 255 B.R. 185, 189 (Bankr. E.D. Tex.2000) (approving a transition plan for the turnover of a nursing home after the rejection of the lease for the same).[41]

Exide proposes a two-year transition period based on the termination provision in the Trademark License that calls for a "reasonable period not to exceed two (2) years" for discontinuing EnerSys's use of the mark.[42] EnerSys suggests a five-year transition period. Given that the parties have already agreed upon a maximum two-year time frame, I conclude that two years from the date of this decision is an appropriate transition period and I will so order.[43]

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[41] The Court requested input in post-hearing submissions from both parties concerning the imposition of a transition period if rejection was approved. Section 105(a) of the Bankruptcy Code allows this Court to "issue any order, process or judgment that is necessary or appropriate to carry out the provisions of the [Bankruptcy Code]." 11 U.S.C. § 105(a). This provision essentially codifies "the traditional understanding that bankruptcy courts, as courts of equity, have broad authority to modify creditor-debtor relationships." *United States* v. *Energy Res. Co., Inc.*, 495 U.S. 545, 549 (1990).

[42] Paragraph 8 of the Trademark License provides, in relevant part, that:

> [u]pon termination of this Trademark License, Licensee and its sublicensees shall, within a reasonable period of time not to exceed two (2) years, discontinue all use of the Licensed Marks and Licensee shall discontinue all use of the Licensed Trade Name ....

[43] Relying upon the terms of Trademark License to establish the two-year transition period is reasonable given the fact that both parties, who are highly sophisticated businesses,

An appropriate Order follows.

BY THE COURT:

/s/ Kevin J. Carey
UNITED STATES
BANKRUPTCY JUDGE

Dated: April 3, 2006

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agreed upon such time-frame after much negotiation and, presumably, careful consideration in the course of their arm's-length transaction. Further, EnerSys does not provide any reason for following its suggested 5-year period or any other time period for that matter. Indeed, a transition period as long as the one suggested by EnerSys could actually be more harmful. The longer EnerSys continues to use the Exide mark, the more it would be doing so for Exide's benefit, since the mark ultimately reverts back to Exide. EnerSys's own expert witness testified as much. *See* 3/25/04 Tr. 57:6-12.

However, establishing only a time-frame for the transition may not be sufficient. For the transition to be as smooth as possible, a plan should be created that sets forth how the transition will be carried out. However, before deciding whether the parties should be left to their own devices or whether the Court should impose such a plan and, if so, the terms of such a plan, I will schedule a hearing to solicit the parties' views about how best to proceed.

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No 08-1872

In re EXIDE TECHNOLOGIES,

Debtors.

ENERSYS DELAWARE, INC., formerly known as EnerSys Inc.,

Appellant.

Before: McKEE, Chief Judge, SLOVITER, SCIRICA, RENDELL, BARRY, AMBRO, SMITH, FISHER, CHAGARES, JORDAN, GREENAWAY, VANASKIE, ROTH* and ALACRON**, Circuit Judges

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ORDER

The petition for rehearing en banc filed by the Appellee in the above-entitled case having been submitted to the judges who participated in the decision of this Court and to all the other available circuit judges of the circuit in regular active service,

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* Judge Roth's vote is limited to panel rehearing only.

** Judge Alarcón, sitting by designation, is limited to panel rehearing only.

and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular active service not having voted for rehearing by the court en banc, the petition for rehearing is **denied.**

By the Court,

/s/ JANE R. ROTH
Circuit Judge

Dated: June 29, 2010
PDB/cc: All Counsel of Record

No. 10-422

IN THE
Supreme Court of the United States

IN RE: EXIDE TECHNOLOGIES,

Debtor

EXIDE TECHNOLOGIES,

Petitioner,

v.

ENERSYS DELAWARE INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

The questions presented are:

1. Should the Petition be denied because the Petitioner waived any argument that the United States Court of Appeals for the Third Circuit erred in applying the "Countryman Test" (defined below) to determine whether the Agreements (defined below) were "executory," when the Petitioner failed to assert any objection to the use of the Countryman Test or propose the use of any other test of executoriness in proceedings before the Court of Appeals (or either of the lower courts that addressed this matter prior to the Court of Appeals), and, in fact, affirmatively argued to all three courts below that the Countryman Test applied and was satisfied, and raised the issue of the use of the Countryman Test for the first time in its Petition for a Writ of *Certiorari*?

2. Should the Petition be denied because there is no real, intolerable or genuine conflict among the federal courts of appeals regarding the test for determining whether a contract is executory?

3. Should the Petition be denied because, to the extent that there is a conflict among the federal courts of appeals regarding the test for determining whether a contract is executory, it is not sufficiently developed?

4. Should the Petition be denied because, to the extent that there is a conflict among the federal courts of appeals regarding the test for determining whether a contract is executory, it is based on outdated authority?

5. Should the Petition be denied because, to the extent that there is a conflict among the federal courts of appeals regarding the test for determining whether a contract is executory, it relates to an issue which is not sufficiently important?

6. Should the Petition be denied because, to the extent that there is a conflict among the federal courts of appeals regarding the test for determining whether a contract is executory, this is not an appropriate case for resolution of such conflict?

LIST OF PARTIES TO THE PROCEEDINGS BELOW AND RULE 29.6 STATEMENT

The names of all parties in the United States Court of Appeals for the Third Circuit are Exide Technologies (Petitioner) and EnerSys Delaware Inc. (Respondent).

EnerSys Delaware Inc. is a wholly-owned subsidiary of EnerSys, a publicly traded company.

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INTRODUCTION

Respondent EnerSys Delaware Inc ("**EnerSys**") respectfully requests that this Court deny the petition for a writ of *certiorari* seeking review of the Judgment and Opinion of the United States Court of Appeals for the Third Circuit ("**Court of Appeals**"), entered on June 1, 2010.

STATEMENT OF THE CASE

On June 10, 1991, Yuasa Battery Co. Ltd., a predecessor-in-interest to EnerSys,[1] and Exide Corporation, now known as Exide Technologies, Inc ("**Exide**"), entered into an Asset Purchase Agreement ("**APA**") Petition ("**Petition**" or "**Pet.**") at 5-6, Pet App 28a. At closing (also on June 10, 1991), EnerSys paid Exide in excess of $135 million, representing all of the consideration due to Exide under the APA, and Exide transferred to EnerSys all of the assets of Exide's industrial battery business, including plants, inventory, contracts, trademarks, tradenames, patented technology and related goodwill Pet App 29a In addition, at closing on the APA (and also in consideration of the fully paid $135 million purchase price), Exide granted EnerSys a ***perpetual***, ***exclusive***, ***worldwide***, ***royalty-free*** license to use certain trademarks, including "Exide" (collectively, the "**Marks**"), on products sold in the industrial battery business pursuant to a Trademark Agreement which was incorporated into the APA and attached as an exhibit ("**Trademark Agreement**") Pet.

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1 For ease of reference, Yuasa Battery Co Ltd shall be referred to as "EnerSys "

at 6, Pet. App 29a-30a Obtaining the perpetual, exclusive, worldwide, royalty-free right to use the Marks on industrial batteries was critical to the decision of EnerSys to enter into the APA Transcript of March 5, 2004 Hearing at 126, 128, 130, *In re Exide Technologies, et al*, No 02-11125 (Bankr D Del.).

On April 15, 2002, Exide and its debtor affiliates filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the "**Bankruptcy Code**") in the United States Bankruptcy Court for the District of Delaware (the "**Bankruptcy Court**"). *In re Exide Technologies, et al*, No 02-11125, D I. 1 (Bankr D Del)

On March 14, 2003, almost *12 years* after the closing of the APA, Exide filed four Notices of Rejection seeking to reject the APA, the Trademark Agreement, and two other related agreements (collectively, the "**Agreements**") Pet at 8, Pet App 29a & n 3, *In re Exide Technologies, et al*, No 02-11125, D I 1613, 1614, 1615 & 1617 (Bankr D Del). The four Notices of Rejection described above are collectively referred to as the "**Notices to Reject** " Exide's primary objective in filing the Notices to Reject was to recapture the exclusive right to use the Marks (including "Exide") on industrial batteries, Pet App 30a, notwithstanding that it had transferred that right to EnerSys in perpetuity in 1991 and had long since been fully paid for that transfer Pet App 29a-30a

On April 14, 2003, EnerSys timely filed its objection to the Notices to Reject *In re Exide Technologies, et al*, No. 02-11125, D I 1726 (Bankr D.Del)

On April 3, 2006, the Bankruptcy Court entered an order and issued a supporting opinion granting Exide's request that it be permitted to reject the Agreements ("the **Rejection Order**" and the "**Bankruptcy Court Opinion**," respectively) Pet App. 27a-83a, Pet. at 8-9. On February 27, 2008, the United States District Court for the District of Delaware (the "**District Court**") affirmed the Rejection Order in a Memorandum Order (the "**District Court Order**") Pet. App. 22a-26a.

On June 1, 2010, the Court of Appeals issued an opinion (the "**Court of Appeals Opinion**"), determining that the Agreements are not executory and cannot be rejected, and a judgment (the "**Court of Appeals Judgment**") vacating the District Court Order and remanding for further proceedings consistent with the Court of Appeals Opinion. Pet. App. 1a-13a, Opp. App. 78a-79a. On June 15, 2010, Exide petitioned the Court of Appeals for rehearing *en banc*. Opp. App. 56a-77a. On June 29, 2010, the Court of Appeals denied Exide's petition for rehearing *en banc*. Pet. App. 84a-85a.

Exide did not seek a stay of the mandate of the Court of Appeals and, on July 7, 2010, the Court of Appeals issued its mandate. *In re Exide Technologies, et al.*, No. 08-1872 (3d Cir. July 7, 2010). On July 14, 2010, the District Court vacated the District Court Order and remanded the case to the Bankruptcy Court for further proceedings. *In re Exide Technologies, et al.*, No. 06-00302, D.I. 31 (D.Del. July 17, 2010).

On August 27, 2010, the Bankruptcy Court entered an order that, among other things, vacated the Rejection Order and denied the Notices to Reject. *In re Exide Technologies, et al.*, No. 02-11125, D.I. 6400 (Bankr. D. Del.).

On September 27, 2010, Exide filed its Petition in this Court.

On October 12, 2010, the Bankruptcy Court entered an order that amended its August 27, 2010 Order in respects that are not relevant to this Petition. *In re Exide Technologies, et al.*, No. 02-11125, D.I. 6422 (Bankr. D. Del.).

REASONS FOR DENYING THE PETITION

I. EXIDE HAS WAIVED ANY ARGUMENT THAT THE COURT OF APPEALS APPLIED THE INCORRECT TEST TO DETERMINE WHETHER THE AGREEMENTS WERE EXECUTORY.

The Court should deny Exide's Petition on the basis of waiver.

Exide argues in its Petition that the Court of Appeals erred in applying the "Countryman Test" (the "**Countryman Test**") to determine whether the Agreements are executory and further argues that a "well-entrenched conflict" exists among the federal courts of appeals regarding the test to be used to determine what constitutes an "executory contract" under Section 365(a) of the Bankruptcy Code.[2] Pet. at

2 The Countryman Test defines an executory contract as "a contract under which the obligation of both the bankrupt and the other party to the contract are so far underperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other." *Sharon Steel Corp. v. Nat'l Fuel Gas Distrib. Corp.*, 872 F.2d 36, 39 (3d Cir. 1989), *see also In re Columbia Gas Sys. Inc.*, 50 F.3d 233, 239 (3d Cir. 1995).

13-19 According to Exide, the conflict is between seven circuits, including the Third Circuit, which have adopted the Countryman Test, and two circuits which Exide asserts have adopted the "Functional Test." Pet at 13-19

For the reasons discussed below, there is no such conflict Further, to the extent any such conflict exists, it is not well developed, is based on very old circuit court decisions purporting to adopt the Functional Test, and does not relate to an issue that is important enough to warrant granting the Petition And, in any event, this case is a particularly poor vehicle to resolve any such conflict It is not necessary, however, for this Court to address or resolve any of those issues because Exide, as a threshold matter, has waived any argument that the Court of Appeals erred in applying the Countryman Test in this case

At no time prior to filing its Petition did Exide ever question or oppose the use of the Countryman Test to determine whether the Agreements were executory or propose that the Bankruptcy Court, the District Court, or the Court of Appeals consider or apply the Functional Test, or any other test, to make such a determination To the contrary, as set forth below, Exide affirmatively argued to all three courts that the Countryman Test applied and had been satisfied.

A. The Proceedings Before the Bankruptcy Court

On January 14, 2004, prior to the hearing of this matter in the Bankruptcy Court, Exide filed a Pre-Rejection Hearing Brief. Exide wrote:

> Although the Bankruptcy Code does not specify what constitutes an "executory contract," courts generally follow the "Countryman Definition," which defines an agreement as executory if the obligation of "both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other" *Sharon Steel Corp v National Fuel Gas Distrib Corp*, 872 F2d 36, 39 (3d Cir. 1989) (quoting Countryman, *Executory Contracts in Bankruptcy, Part I*, 57 MINN L.REV 439, 460 (1973)).

Debtors' Pre-Rejection Hearing Brief at 7, *In re Exide Technologies, et al*, No. 02-11125, D.I. 3461 (Bankr D Del Jan. 14, 2004) [3]

At the hearing of this matter in March 2004, Exide asserted no objection to the use of the Countryman Test and proposed no other test for executoriness. Indeed,

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3 Exide filed its Pre-Rejection Hearing Brief in the Bankruptcy Court under seal but has agreed not to object to EnerSys' citation to, and quotation from, the pages of that document referenced herein.

to the contrary, in its closing argument, Exide affirmatively argued that the Countryman Test applied and had been satisfied Transcript of March 31, 2004 Hearing, at 37, 67, *In re Exide Technologies, et al* , No 02-11125 (Bankr D Del)

Following the hearing, in its Post-Trial Brief submitted to the Bankruptcy Court, Exide again affirmatively argued that the Countryman Test applied and had been satisfied Debtors' Post-Trial Brief at 3, *In re Exide Technologies, et al* , No 02-11125, D I 4221 (Bankr D Del April 13, 2004).[4] Exide wrote

> As this Court has ruled , the pertinent question is whether "the failure of either to complete performance would constitute a material breach excusing performance of the other." *See Sharon Steel Corp v Nat'l Fuel Gas Distr Corp* , 872 F2d 36, 39 (3d Cir 1989).

Id Again, Exide asserted no objection to the Countryman Test and proposed no other test for executoriness *See generally* Debtors' Post-Trial Brief, *In re Exide Technologies, et al* , No 02-11125 (Bankr. D.Del April 13, 2004)

In the Bankruptcy Court Opinion issued in April 2006, the Bankruptcy Court applied the Countryman Test, *see* Pet App. 32a-33a, found that the contract at

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4 Exide filed its Post-Trial Brief in the Bankruptcy Court under seal but has agreed not to object to EnerSys' citation to, and quotation from, the pages of that document referenced herein

issue was executory, and granted Exide's motion to reject. *See generally* Pet. App. 27a-83a. Exide did not request reconsideration of any issue or appeal any aspect of either the Rejection Order or the Bankruptcy Court Opinion, including the application by the Bankruptcy Court of the Countryman Test.

B. The Proceedings Before the District Court

EnerSys appealed the Rejection Order to the District Court. In its Brief of Appellee filed in the District Court, Exide again asserted no objection to the Countryman Test and proposed no other test for executoriness. *See generally* Appellee's Opposition Brief on Appeal from Bankruptcy Court, *In re Exide Technologies, et al* , No 06-00302, D.I. 20 (D Del. Oct 5, 2006)

Instead, Exide argued that the Bankruptcy Court had correctly found that the Countryman Test applied and had been satisfied Appellee's Opposition Brief on Appeal from Bankruptcy Court at 19-23, *In re Exide Technologies, et al* , No 06-00302 (D Del Oct. 5, 2006). Exide never argued or implied that it was an incorrect or inappropriate test or was inapplicable in any way *Id* Exide even claimed that courts generally follow this test, "further refining" the "characterization" that performance is due to some extent, on both sides *Id* at 20. Lest there be any confusion regarding Exide's position on the appropriate test for executoriness, Exide wrote: "The plain language of the Integrated Agreement unequivocally imposes on both Exide and EnerSys mutual ongoing material obligations, which render the contract executory ***under the relevant standard***." *Id* at 19 (emphasis added).

In the District Court Order, the District Court affirmed the Bankruptcy Court's ruling, implicitly affirming its selection of the proper test for executoriness and applying the Countryman Test (without expressly citing Professor Countryman's article) Pet. App 25a (finding the "Integrated Agreement imposed ongoing obligations on the part of both parties and the failure to perform these obligations would constitute a material breach excusing performance of the other party"), *see generally* Pet App. 22a-26a. Again, Exide did not request reconsideration of any issue or appeal any aspect of the District Court Order, including application by the District Court of the Countryman Test.

C. The Proceedings Before the Court of Appeals

EnerSys then appealed the District Court Order. In its Brief of Appellee filed in the Court of Appeals, Exide again asserted no objection to the Countryman Test and proposed no other test for executoriness. *See generally* Opp App 1a-55a [5] Moreover, Exide did not argue that either the Bankruptcy Court or the District Court had applied the incorrect test for executoriness Instead, Exide argued that the Bankruptcy Court had correctly found – and the District Court had correctly affirmed – that the Countryman Test applied and had been satisfied Opp App 32a-42a Exide ***again*** asserted that courts generally follow this test, "further refining" the "characterization" that performance is due to some

5 Exide filed its Brief of Appellee in the Court of Appeals under seal, Opp App 1a, but has agreed not to oppose EnerSys' inclusion of that document in the Opposition Appendix filed on the public record

extent, on both sides *Id* The Court of Appeals, applying the Countryman Test, reversed the District Court's finding of executoriness and remanded the case to the District Court for remand to the Bankruptcy Court Pet App 1a-21a.

Exide then sought rehearing *en banc*, not on the basis that the Countryman Test was incorrect, inappropriate or inapplicable, but to the contrary, on the ground that the Countryman Test controlled but the panel's ruling had incorrectly applied it and, as a result, was contrary to *Sharon Steel* and *Columbia Gas*, among other authorities *See generally* Opp. App 56a-77a. Once again, Exide proposed no other test for executoriness but instead argued again that the Agreements were executory under the Countryman Test. *Id* As noted above, the Court of Appeals denied Exide's Petition for Rehearing *en banc*. Pet. App. 84a-85a.

D. Exide's Waiver

On September 27, 2010, Exide filed its Petition, arguing for the first time that, (1) the Countryman Test is inconsistent with congressional intent and injects arbitrary state law analysis into an area of federal law that demands uniformity, and (2) the correct test to determine whether a contract is executory is the "Functional Test " Pet at 13-25

Exide waived these arguments by not presenting them to the Court of Appeals, the District Court, or the Bankruptcy Court It is well settled that this Court ordinarily does not decide questions that were not raised

or resolved in the lower courts, absent a showing of unusual or exceptional circumstances *Granite Rock Co v International Broth of Teamsters*, 130 S Ct 2847, 2861 & n 14 (2010), *Astrue v Ratliff*, 130 S. Ct. 2521, 2525 n 2 (2010); *Glover v United States*, 531 U.S 198, 205 (2001), *United States v Alvarez-Sanchez*, 511 U S 350, 360 n 5 (1994); *Taylor v Freeland & Kronz*, 503 U S. 638, 645-46 (1992), *United States v Lovasco*, 431 U S. 783, 788 n.7 (1977), *United States v Ortiz*, 422 U S 891, 898 (1975), *Neely v Martin K Eby Construction Co, Inc*, 386 U S 317, 330 (1967), *Duigan v United States*, 274 U S. 195, 200 (1927).

In this case, there are no unusual or exceptional circumstances that warrant deviation from these well-established principles In its Petition, Exide failed to inform this Court that it had not raised to any of the three courts below the argument that the Functional Test or, indeed, any test other than the Countryman Test, should have been applied to determine whether the Agreements are executory, and likewise failed to identify any unusual or exceptional circumstances that would justify excusing Exide's patent failure to raise this argument below Accordingly, this Court should hold that Exide's newly minted argument regarding the proper test to determine the executoriness of a contract was waived and should deny Exide's Petition on that basis alone [6]

6 Any argument that Exide did not waive its right to argue to this Court that the Functional Test should have been applied to determine executoriness of the Agreements because the Third Circuit had adopted the Countryman Test in *Sharon Steel*, 872 F 2d at 39, and *Columbia Gas*, 50 F 3d at 239, is unavailing EnerSys has found no case excusing waiver simply because the

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II. THERE IS NO CONFLICT AMONG THE FEDERAL COURTS OF APPEALS REGARDING THE TEST FOR DETERMINING WHETHER A CONTRACT IS EXECUTORY.

This Court should deny Exide's Petition because there is no conflict among the federal courts of appeals regarding the test for determining whether a contract is executory that would warrant granting a writ of *certiorari*.

As noted by a leading treatise on Supreme Court practice, in granting writs of *certiorari* based on conflicts between courts of appeals, "there must be a real or 'intolerable' conflict on the same matter of law or fact, not merely an inconsistency in dicta or in the general principles utilized." Stern, Gressman, Shapiro and Geller, *Supreme Court Practice* § 4.3 (7th Ed. 1993). Further, "[a] genuine conflict, as opposed to a mere conflict in principle, arises when it may be said with confidence that two courts have decided the same legal issue in opposite ways, based on their holdings in different cases with very similar facts." *Id.* According to Exide, just such a conflict exists between two circuits, the Sixth and Eleventh, which Exide asserts have

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argument in question would have been contrary to controlling circuit law. Moreover, Exide failed to propose the use of the Functional Test even when these proceedings reached the Court of Appeals. Opp. App. 1a-55a. Nor did Exide argue for application of the Functional Test when it sought rehearing *en banc* before the Court of Appeals but, rather, argued that the panel had failed to properly apply the Countryman Test. Opp. App. 65a-77a.

adopted the "Functional Test" for determining whether a contract is executory, and seven other circuits, including the Third Circuit, which have adopted the Countryman Test for making such determination. Exide is mistaken.

Preliminarily, it should be noted that, throughout much of its Petition, Exide refers to the "Functional Test" as if it were a single, consistent standard. However, a review of Exide's own description of the holdings in the decisions which allegedly adopt the Functional Test in the Sixth Circuit and Eleventh Circuit reveals that not even Exide believes that any such single Functional Test exists. Rather, the version of the Functional Test that Exide asserts has been adopted in the Sixth Circuit treats a contract as executory as long as it imposes obligations which continue into the future and, if the debtor is seeking to reject, an obligation for the debtor to do something in the future. Pet. at 15. On the other hand, the version of the Functional Test Exide asserts has been adopted in the Eleventh Circuit treats a contract as executory as long as doing so would produce a benefit for the debtor. Pet. at 16-17. Plainly, to the extent a "Functional Test" exists, there is no single definition.

In addition, a review of the Eleventh Circuit case upon which Exide bases its argument reveals an apparent misstatement by Exide of its holding. To the extent the Eleventh Circuit has adopted a Functional Test, in the context of rejection, it appears to require that treating the contract as executory (and, so, allowing rejection) be *critical* to the debtor's reorganization. *In re General Dev. Corp.*, 84 F.3d 1364, 1374 (11th Cir. 1996)

("In the instant case, GDC's ability to reject homesite purchase agreements which obligated it to improve and deed developed homesite lots to tens of thousands of lot purchasers, when it was simply financially unable to fill such contractual obligations ***was critical*** to GDC's reorganization ") (emphasis supplied). Exide, however, appears to interpret *General Development* as setting a much lower bar, allowing for treatment of a contract as executory if rejection would relieve the debtor of any onerous, burdensome or disadvantageous obligation [7]

A. There Is No Conflict Between the Sixth Circuit and the Circuits That Have Adopted the Countryman Test Regarding the Test for Determining Whether a Contract Is Executory.

Exide's argument that the Sixth Circuit has rejected the Countryman Test and adopted the Functional Test is based on *In re Jolly*, 574 F.2d 349 (6th Cir. 1978), *cert. denied*, 439 U.S. 929 (1978), as allegedly affirmed in *In re Becknell & Crace Coal Co.*, 761 F.2d 319 (6th Cir. 1985) and *In re Magness*, 972 F.2d 689 (6th Cir. 1992). For

7. Exide does not make any attempt to define "burdensome," "disadvantageous" or "onerous" obligations or distinguish them from any other kind of obligations. Presumably, given Exide's argument that the materiality standard is inappropriate, Pet. at 20-25, Exide believes onerous, burdensome and disadvantageous obligations do not have to be material. And, in any event, Exide does not interpret *General Development* to require that relief from remaining debtor obligations be "critical" to the debtor's reorganization in order for the underlying contract to satisfy the Functional Test in the context of rejection.

reasons which will be discussed within, none of *Jolly*, *Becknell* or *Magness* creates a real, intolerable or genuine conflict with the decisions of the courts of appeals that have formally adopted the Countryman Test. However, even if such were not the case, no such conflict can possibly exist, because (a) a decision of the Sixth Circuit that post-dated *Jolly* and *Becknell* affirmatively adopted the Countryman Test more than twenty years ago, *see In re Terrell*, 892 F2d 469 (6th Cir. 1989)[8], and (b) as discussed below, the discussion in *Magness* of the Functional Test was *dicta*.

In *Terrell*, the Sixth Circuit noted that the term "executory contract" is not defined in the Bankruptcy Code and then stated: "Congress apparently had in mind the definition of executory contracts set forth in Countryman, *Executory Contracts in Bankruptcy Part I* . . . ." The *Terrell* Court then re-stated, verbatim, the Countryman Test, *id.* at 471 n.2, applied the Countryman Test to the facts and concluded, "[c]learly, there are material obligations left to be performed by both parties to the contract." *Id.* at 472. Based on that finding, the Court held that the contract in question was executory. *Id.* at 473.

Conspicuously absent from the *Terrell* opinion is any mention of the Functional Test. Further, since the decision in *Terrell* was issued, it has been cited by lower

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8 Exide failed even to cite the *Terrell* decision in its Petition, let alone attempt to distinguish it or explain why it does not preclude any finding of a conflict between the approach in the Sixth Circuit to determining whether a contract is executory and the approach in the seven circuits that have adopted the Countryman Test.

courts in the Sixth Circuit as standing for the proposition that, in the Sixth Circuit, the Countryman Test applies *See In re Ravenswood Apartments, Ltd.*, 338 B R 307, 311 (6th Cir BAP 2006) ("After citing the definition set forth in the legislative history, the *Terrell* court adopted the so-called Countryman definition of an executory contract."), *In re Nat'l Fin Realty Trust*, 226 B.R 586, 589 (Bankr W D Ky 1998) (citing *Terrell* and stating "The prevailing definition throughout the United States is generally referred to as the 'Countryman' definition. The Sixth Circuit has adopted that definition. . .").

Terrell, on its own, defeats Exide's claim of a conflict between the Sixth Circuit and those circuits that have adopted the Countryman Test. But even if the Sixth Circuit had not issued its *Terrell* decision, no real, intolerable or genuine conflict would exist between the law in the Sixth Circuit and the law in the circuits which have adopted the Countryman Test regarding the definition of an executory contract.

In *Jolly*, prior to the filing of the debtor's bankruptcy petition, the debtor entered into a contract to purchase burial plots, with the purchase price for the lots to be paid over time When the debtor later defaulted on his payment obligations under that contract, the cemetery owner cancelled the contract and, prior to the debtor's bankruptcy filing, obtained a default judgment for the balance due. *In re Jolly*, 574 F.2d at 349-50 After the debtor filed his bankruptcy petition, the trustee sought to reject the burial plot contract *Id* at 350 In determining that the burial plot contract was not executory, the Jolly Court quoted the

Countryman Test and then noted, "[s]uch definitions are helpful, but do not seem to resolve this problem." *Id.* at 351.

This language falls far short of raising a real or intolerable conflict with the Countryman Test of the kind normally required by this Court to warrant granting a writ of *certiorari*. In fact, some lower courts within the Sixth Circuit do not even recognize *Jolly* as departing from the Countryman Test. *See, e.g., In re KMMCO, Inc.*, 40 B.R. 976, 978 (Bankr. E.D. Mich. 1984) (noting that the Countryman Test has been adopted by most courts and stating "[t]his Court does not read the decision in *In re Jolly* to depart from this [the Countryman] well settled definition").

Further, *Jolly* does not create a "genuine" conflict (*i.e.*, a conflict that would lead to different results on very similar facts) with the holdings of the courts of appeals that have formally adopted the Countryman Test. The *Jolly* Court held that the contract in question was not executory because the debtor had no remaining obligations. *In re Jolly*, 574 F.2d at 351. Had the *Jolly* Court applied the Countryman Test, it would have reached the same conclusion since the debtor did not have any remaining material obligations. *See In re Columbia Gas*, 50 F.3d at 240; *Sharon Steel*, 872 F.2d at 39.

Nor does the Sixth Circuit's decision in *Becknell* support Exide's argument that there is a real, intolerable or genuine conflict between the law in the Sixth Circuit regarding the definition of an executory contract and the law of circuits that have adopted the Countryman Test. *Becknell* does not mention the

Countryman Test or any case which applied the Countryman Test, let alone reject the Countryman Test. Rather, the Court in *Becknell* simply quoted from *Jolly* and then, without any independent reasoning, found the lease purchase agreement in that case to be executory because all of the parties to the contract "had obligations to perform in the future." *In re Becknell*, 761 F.2d at 322. And, there is no indication in the *Becknell* opinion that the remaining obligations of the parties were not material. As a result, it cannot be said with any confidence that the result in *Becknell* would have been any different under the Countryman Test. *See* Stern, Gressman, Shapiro and Geller, *Supreme Court Practice* § 4.3 (7th Ed. 1993).

Finally, the decision of the Sixth Circuit in *Magness* lends no support to Exide's claim of a conflict because *Magness* was not a case in which executoriness was even at issue. Rather, in *Magness*, the Court was required to determine whether a contract could be assumed and assigned notwithstanding the provisions of 11 U.S.C. § 365(c), which preclude assignment of certain types of contracts. *In re Magness*, 972 F.2d at 689. While the *Magness* Court did cite both the Countryman Test and *Jolly*, it specifically noted that "[i]n the instant case, because the trustee does not propose to reject the contract but wishes to assign it, ***it is not necessary to further explore the executory contract problem.***" *Id.* at 694 (emphasis supplied). The discussion in *Magness* of the Countryman Test and *Jolly* was mere *dicta* and, so, does not provide any basis to find that a real, intolerable or genuine conflict exists between the test employed by the Sixth Circuit to determine whether a contract is executory and the test employed by the seven

circuits that have adopted the Countryman Test *See Randall v Scott*, 610 F3d 701, 708 (11th Cir. 2010) ("*Dicta* is neither the law of the case nor binding precedent."); *Arcam Pharmaceutical Corp v Faria*, 513 F3d 1, 3 (1st Cir 2001) ("*Dictum* constitutes neither the law of the case nor the stuff of binding precedent ")

The conclusion is inescapable that no real, intolerable or genuine conflict exists between the Sixth Circuit's approach to determining whether a contract is executory and the approach of the seven circuits that have adopted the Countryman Test

B. There Is No Conflict Between the Eleventh Circuit and the Circuits That Have Adopted the Countryman Test Regarding the Test for Determining Whether a Contract Is Executory.

Exide's argument that a conflict warranting the grant of its Petition exists between the Eleventh Circuit and the seven circuits that have adopted the Countryman Test is based on a single case, *In re General Dev Corp*, 84 F3d 1364 (11th Cir 1996) Pet at 16-17 Exide's reliance on *General Development* is misplaced

General Development is a *per curiam* decision in which the Eleventh Circuit did not author an opinion but, rather, simply affirmed based on the opinion of the district court. *Id* at 1365 As noted by this Court in *Illinois State Bd of Elec v Socialist Workers*, 440 U S 173, 182 (1979), "[a]s we stated in *Mandel* v. *Bradley* [internal citation omitted], the precedential effect of a

summary affirmance can extend no farther than 'the precise issues presented and necessarily decided by those actions' " Additionally, in *Edwards v Carpenter*, 529 U S 446, 452 n 3 (2000), this Court stated "In any event, *per curiam* opinions decided without the benefit of full briefing or oral argument are of little precedential value."[9]

Even if the lack of precedential value of the *General Development* decision were to be ignored, it does not create a real, intolerable or genuine conflict with the law of the seven circuits that have adopted the Countryman Test In *General Development*, the ***district court*** – not the Eleventh Circuit – stated "While it does not appear that the Eleventh Circuit has adopted the 'functional approach' over the 'Countryman approach', the Eleventh Circuit in *In re Martin Brothers Toolmakers, Inc.* [internal citations omitted] appears more inclined to embrace the 'functional approach.' " *In re General Dev Corp*, 177 B R 1000, 1013 (S D Fla 1995). In other words, while the district court opinion in *General Development*, affirmed without opinion by the Eleventh Circuit, ***predicts*** that the Eleventh Circuit would embrace the Functional Test, it also acknowledges that the Eleventh Circuit ***has not ruled*** on whether the Countryman Test or some version of the Functional Test should be applied in determining whether contracts are executory *Id* And that is exactly how lower courts in the Eleventh Circuit have interpreted *General*

9 The Eleventh Circuit's *per curiam* decision in *General Development* was rendered without oral argument, as evidenced by the notation in the caption that it was listed on the Non-Argument Calendar *In re General Dev Corp*, 84 F 3d at 1364

Development. *See, e.g., In re WB Care Center, LLC* 419 B.R. 62, 70 (Bankr. S.D. Fla. 2009) (citing *General Development* and stating, "[e]ven though this Circuit is 'amenable' to the functional test, it has not outright adopted the functional test over the Countryman test")

While the Eleventh Circuit may have expressed that it is "amenable" to the Functional Test, that expression of amenability falls far short of creating a real, intolerable or genuine conflict between the Eleventh Circuit and the seven circuits that have affirmatively and unambiguously adopted the Countryman Test. And since, for reasons discussed above, no such conflict exists between the Sixth Circuit and the seven circuits which have adopted the Countryman Test, there is no conflict among the federal courts of appeals that would justify granting Exide's Petition.

III. TO THE EXTENT THERE IS A CONFLICT AMONG THE FEDERAL COURTS OF APPEALS REGARDING THE DEFINITION OF EXECUTORY CONTRACT, IT IS UNDEVELOPED AND DOES NOT WARRANT THE GRANT OF EXIDE'S PETITION.

To the extent this Court concludes that there is a conflict regarding the approach to determining whether a contract is executory employed in the seven circuits which have adopted the Countryman Test, on the one hand, and either the Sixth Circuit or the Eleventh Circuit, on the other hand, the conflict is undeveloped and does not warrant granting Exide's Petition

First, with regard to the Sixth Circuit, any conflict between its approach to defining executory contracts and the approach of the seven circuits that have adopted the Countryman Test would be based on the holding of a Sixth Circuit panel in *Jolly* and, possibly, the holding of a Sixth Circuit panel in *Becknell*.[10] *In re Jolly*, 574 F.2d at 351; *In re Becknell*, 761 F2d at 322 However, eleven years after *Jolly* was issued and four years after *Becknell* was decided, a different Sixth Circuit panel issued its decision in *Terrell*, adopting the Countryman Test *In re Terrell*, 892 F2d at 471-73 & n 2 As a result, to the extent *Jolly* and *Becknell* adopted a version of the Functional Test, an internal conflict exists in the Sixth Circuit. Before this Court commits its very limited resources to resolving any perceived conflict between the Sixth Circuit and the seven circuits that have adopted the Countryman Test, the Sixth Circuit should resolve its own internal conflict.

Second, with regard to the Eleventh Circuit, any conflict between the approach of the Eleventh Circuit to defining executory contracts and the approach of the seven circuits that have adopted the Countryman Test would be based on an opinion of a district court, affirmed *per curiam* by the Eleventh Circuit. *In re General Dev Corp* , 84 F3d 1364 Before this Court commits its very limited resources to resolving any perceived conflict between the law of the Eleventh Circuit defining

10 For reasons stated *supra*, to the extent the Sixth Circuit discussed tests for determining the executoriness of contracts in *Magness*, 972 F 2d at 689, such discussion was *dicta* and cannot form the basis of a conflict with the seven circuits which have adopted the Countryman Test

executory contracts and the law of the seven circuits that have adopted the Countryman Test, this Court should await a reasoned opinion from the Eleventh Circuit itself unambiguously adopting the Functional Approach

IV. TO THE EXTENT THERE IS A CONFLICT AMONG THE FEDERAL COURTS OF APPEALS REGARDING THE DEFINITION OF EXECUTORY CONTRACT, IT IS BASED ON OUTDATED AUTHORITY AND DOES NOT WARRANT THE GRANT OF EXIDE'S PETITION.

To the extent there is any conflict between the law of the Sixth Circuit or the Eleventh Circuit defining executory contracts and the law of the seven circuits which have adopted the Countryman Test, such conflict would be based on Sixth Circuit and Eleventh Circuit authority which is thirty-two years old in the case of *Jolly*, twenty-one years old in the case of *Becknell*, and fifteen years old in the case of *General Development*. In addition, both of the Sixth Circuit cases Exide asserts have adopted the Functional Test, *Jolly* and *Becknell*, were decided under the Bankruptcy Act of 1898, 11 U.S.C. §§ 1 *et seq.* (1976) (repealed 1979), which was replaced with the Bankruptcy Code. Significantly, all seven decisions adopting the Countryman Test and cited by Exide in its Petition were rendered **after** *General Development*, the most recent of the cases that Exide asserts adopted the Functional Test. Pet. at 17, *see, e.g.*, *In re Gen. DataComm Indus., Inc.*, 407 F.3d 516, 623 (3d Cir. 2005), *cert. denied sub nom. Gen. Datacomm Indus., Inc. v. Arcara*, 546 U.S. 1031 (2005), *In re*

Sunterra Corp., 361 F.3d 257, 264 (4th Cir. 2004); *In re Lilyeberg Enters., Inc.*, 304 F.3d 410, 436 (5th Cir. 2002), *Dick ex rel. Amended Hilbert Residence Maint. Trust v. Conseco, Inc.*, 458 F.3d 573, 577 (7th Cir. 2006), *In re Craig*, 144 F.3d 593, 596 (8th Cir. 1998); *In re Int'l Fibercom, Inc.*, 503 F.3d 933, 941 (9th Cir. 2007); *In re Baird*, 567 F.3d 1207, 1211 (10th Cir. 2009). In fact, most of the appellate court decisions cited by Exide as adopting the Countryman Test were rendered within the last six years, and all were decided under the Bankruptcy Code, not the repealed Bankruptcy Act. Pet. at 17.

Given the age of *Jolly*, *Becknell* and *General Development* and the unanimous adoption of the Countryman Test by all seven circuits that have considered the issue over the last fifteen years, this Court should not devote its limited resources to addressing the definition of executory contract.

V. TO THE EXTENT THERE IS A CONFLICT AMONG THE FEDERAL COURTS OF APPEALS REGARDING THE TEST TO DETERMINE WHETHER A CONTRACT IS EXECUTORY, THE ISSUE RAISED IS NOT IMPORTANT ENOUGH TO WARRANT GRANTING EXIDE'S PETITION.

Even if this Court were to conclude that there is a conflict among the federal courts of appeals regarding the proper test to determine whether a contract is executory, the issue raised is not important enough to warrant granting Exide's Petition because the result in most, if not all, cases will be exactly the same, regardless

of whether the Countryman Test or either version of the Functional Test which Exide asserts has been adopted in the Sixth or Eleventh Circuits is applied

Initially, it should be noted that there is no shortage of decisions in which Bankruptcy Courts in circuits which have not yet adopted the Countryman Test have applied both the Countryman Test and some version of the Functional Test and affirmatively stated that the result was the same under both *See, e g , In re Appleridge Retirement Community, Inc* , 422 B R 383, 398 (Bankr W D N.Y. 2010), *In re Peralta Food Corp* , No 07-16508, 2008 WL 190503, at *5-6; *In re Driscoll*, 401 B R 512, 518 (Bankr S D Fla 2009), *In re Collins & Aikman Corp* , 384 B R 751, 761-62 (Bankr E D Mich 2008)

That the Functional Test and the Countryman Test have produced the same results is not surprising, given the similarities in the tests, *see Huntington National Bank Co v Alix (In re Cardinal Industries)*, 146 B R 720, 728-29 n 7 (Bankr S D Ohio 1992) (noting that "the functional approach of defining executory contracts is not entirely separate and distinct from the Countryman definition"), and the circumstances in which requests to assume or reject contracts arise and are likely to be contested

To the extent the Functional Test has been adopted in the Eleventh Circuit, the test requires that assumption or rejection be *critical* to the ability of the debtor to reorganize, *see In re General Dev Corp* , 84 F3d at 1374 Very few contracts which do not satisfy the Countryman Test will meet that exacting requirement

To the extent both parties to the contract have remaining material obligations, the contract will satisfy both the Countryman Test ***and*** the version of the Functional Test Exide asserts has been adopted by the Sixth Circuit (*i e*, some remaining obligations and an obligation of the debtor if rejection is sought).

To the extent both parties to the contract have remaining material obligations, the contract will satisfy both the Countryman Test ***and*** the version of the Functional Test Exide asserts has been adopted by the Eleventh Circuit (*i e*, the debtor benefit test ***but*** no requirement that, to the extent rejection is sought, it be critical to the debtor's reorganization) since, in order to obtain approval of assumption or rejection under the Countryman Test, the debtor must demonstrate that assumption or rejection satisfies the business judgment rule which, in turn, requires that assumption or rejection must benefit the debtor. *See Group of Institutional Investors v. Chicago, Milwaukee, St Paul & Pacific R Co*, 318 U S 523, 550 (1943); *Sharon Steel*, 872 F.2d at 39-40

To the extent the debtor has fully performed, or never had, any performance obligations (such as in connection with an option held by the debtor), the contract would be non-executory under (a) the version of the Functional Test Exide asserts has been adopted by the Sixth Circuit (because the debtor has no remaining obligations), (b) the version of the Functional Test Exide asserts has been adopted by the Eleventh Circuit, if the debtor is seeking rejection (because rejection would not benefit the debtor), and (c) the Countryman Test (because the debtor would have no remaining material obligations)

To the extent the debtor has materially performed but the non-debtor has not materially performed or not performed at all

- It is unlikely the debtor would ever seek to reject the contract since rejection could result in forfeiture of the remaining performance due from the non-debtor, *In re Alongi*, 272 B.R. 148, 153 (Bankr. D. Md. 2001), and

- If the debtor wanted to retain the benefits under the contract, the fact that such contract could not be assumed because it was not executory under the Countryman Test would not necessarily prevent the debtor from realizing such benefits since the debtor could simply allow the contract to "ride through" the bankruptcy, rendering any contest regarding executoriness unnecessary. *Phoenix Mutual Life Ins. Co. v. Greystone (In re Greystone III Joint Venture)*, 995 F.2d 1274, 1281 (5th Cir. 1991) ("If a debtor neither assumes nor rejects an executory contract, the contract continues in effect."), *Hall v. Perry (In re Cochise College Park, Inc.)*, 703 F.2d 1339, 1352 (9th Cir. 1983) ("Until rejection, . . . the executory contract continues in effect . . ."), *see also N.L.R.B. v. Bildisco & Bildisco*, 465 U.S. 513, 545 n.12, (1984) (Brennan, J., concurring and dissenting) ("In the unlikely event that the contract is neither accepted nor rejected, it will 'ride through' the bankruptcy proceeding and be binding on the debtor even after a discharge is granted.")

The only circumstance in which application of the Countryman Test or a version of the Functional Test could lead to a different outcome in a case which has any real chance of arising is where the non-debtor has fully or materially performed (or never had any performance obligations), the debtor has not fully performed, and the debtor wants to reject the contract. However, even within this narrow category, the distinction between the Functional Test and the Countryman Test will have no significance in most cases for the reasons stated below.

Such a contract would be non-executory under the Countryman Test, since the non-debtor has materially performed. And if rejection is not "critical" to the debtor's reorganization, the contract would also likely be non-executory under the version of the Functional Test Exide asserts has been adopted in the Eleventh Circuit, since very few individual contracts are *critical* to a debtor's ability to reorganize *See In re General Dev Corp* , 84 F3d at 1374

Moreover, if the debtor's remaining obligations under a contract which has been materially performed by the non-debtor do not constitute "claims," as that term is defined in the Bankruptcy Code, 11 U.S.C. § 101(5), it will not matter whether a version of the Functional Test or the Countryman Test is applied because rejection does not relieve debtors of obligations under contracts that are not "claims " *In re The Ground Round*, 482 F3d 15, 18-19 (1st Cir. 2007), *In re Lavigne*, 114 F.3d 379, 386-87 (2d Cir. 1997); *In re Austin Dev Co* , 19 F3d 1077, 1083 (5th Cir 1994), *cert denied*, 513 U S 874 (1994). Such is the case because rejection

is not the equivalent of rescission but, rather, simply constitutes a breach of contract immediately before the bankruptcy petition date which, in turn, relegates any damages meeting the definition of "claim" in 11 U S C § 101(5) to prepetition unsecured status 11 U S C. § 365(g) *See* Michael T Andrew, *Executory Contracts in Bankruptcy Understanding "Rejection,"* 59 U COLO. L REV 845 (1988) [Andrew I], Michael T Andrew, *Executory Contracts Revisited A Reply to Professor Westbrook*, 62 U. COLO. L REV. 1 (1991) [Andrew II], Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 MINN L REV 227 (1989), *see also In re The Ground Round*, 482 F3d at 18-19, *In re Lavigne*, 114 F3d at 386-87, *In re Austin Dev Co*, 19 F3d at 1083

In fact, as argued by EnerSys below and as accepted by Circuit Judge Thomas L Ambro in his concurring opinion in the Court of Appeals in this case, rejection would not have divested EnerSys of its rights under the Trademark Agreement Pet App 14a-21a As a result, at least from the perspective of Judge Ambro, selection of the Countryman Test or the Functional Test would not have made any difference in this case [11]

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11 The Court of Appeals Opinion, Pet App 1a-13a, is silent on the issue of impact of rejection addressed by Judge Ambro in the concurring opinion Pet App 14a-21a In the event this case were remanded to the Court of Appeals for application of a different executory contract test, and if it were determined that the Agreements are executory and can be rejected, the Court of Appeals would have to address the issue of impact of rejection

VI. TO THE EXTENT THERE IS A CONFLICT AMONG THE FEDERAL COURTS OF APPEALS REGARDING THE DEFINITION OF EXECUTORY CONTRACT AND IT IS DETERMINED THAT THE ISSUE RAISED IS IMPORTANT ENOUGH TO WARRANT RESOLUTION BY THIS COURT, THIS CASE IS A POOR VEHICLE TO EFFECT SUCH RESOLUTION.

To the extent it is determined that there is a conflict among the federal courts of appeals regarding the proper definition of executory contract and that the issue is important enough to warrant resolution by this Court, this case is a very poor vehicle to effect such resolution.

First, even if Exide is not absolutely precluded from arguing for application of the Functional Test given its failure to make that argument to the Bankruptcy Court, the District Court, or the Court of Appeals, that failure alone makes this case a poor vehicle to resolve any issues relating to the definition of executory contract since this Court would be addressing those issues without the benefit of any analysis from the Bankruptcy Court, the District Court, or the Court of Appeals.

Second, as noted by Exide in its Petition, subsequent to the issuance by the Court of Appeals of its order denying Exide's petition for rehearing *en banc*, Exide filed a complaint (the "**Exide Declaratory Judgment Complaint**") in the Bankruptcy Court seeking a declaration of its rights under its confirmed plan of reorganization (the "**Exide Plan**"). Pet. at 12

n 2, Opp App 80a-97a In the Exide Declaratory Judgment Complaint, Exide asserts, among other things, that based on the discharge and revesting provisions of the Bankruptcy Code and notwithstanding that the Court of Appeals has determined that the Agreements are not executory and cannot be rejected, "EnerSys does not have an enforceable right post-confirmation to use the EXIDE mark under the [Trademark] Agreement", and "Reorganized Exide is not encumbered by any use restriction provided in the [Trademark] Agreement," and prays for an order declaring those assertions to be correct Opp App. 95a-96a In other words, according to Exide, even if its Petition were denied, it would still get all the relief it sought in connection with rejection of the Agreements, *i e*, exclusive use of the Exide trademark and tradename, even though it would be unable to reject the Agreements While EnerSys strongly disagrees with the claims asserted in the Exide Declaratory Judgment Complaint, the fact that these claims are being asserted by Exide and, if accepted, would render moot the issue which Exide asks this Court to review (*i e*, whether the Agreements are executory and can be rejected), makes this case an extremely poor vehicle to resolve issues relating to the definition of executory contract

Third, if the Petition is granted and this Court were to decide that the version of the Functional Test Exide asserts has been adopted by the Eleventh Circuit should have been applied, the Agreements would still be found to be non-executory because rejection of the Agreements was clearly not "critical" (as required by *In re General Dev Corp*, 84 F 3d at 1374) to the reorganization of Exide This is evidenced by the fact

that Exide confirmed its plan of reorganization in April of 2004 without the ruling of the Bankruptcy Court granting its request to reject the Agreements, which did not come until April of 2006, two years after the plan had been confirmed *See In re Exide Technologies, et al*, No 02-11125, D I 4341 dated April 21, 2004 & D I. 5378 dated April 3, 2006 (Bankr. D Del.), Pet App 27a-83a

Fourth, if the Petition is granted, for reasons stated by Judge Ambro in his concurring opinion, even if the Agreements were found to be executory and Exide were permitted to reject, EnerSys would not be deprived of its rights under the Trademark Agreement Pet. App. 14a-21a

THE COUNTRYMAN TEST IS THE CORRECT AND APPROPRIATE TEST FOR DETERMINING WHETHER A CONTRACT IS EXECUTORY.

For the reasons stated by Professor Countryman in his article, *see* Countryman, *Executory Contracts in Bankruptcy, Part I*, 57 MINN L REV 439, 460 (1973), and for the reasons stated in the multitude of decisions, including the seven court of appeals decisions cited by Exide, Pet. at 17, which have adopted the Countryman Test, the Countryman Test is the correct and appropriate test for determining whether a contract is executory In the event the Petition is granted, EnerSys will address in detail why the Countryman Test is correct. However, for the limited purposes of this Brief in Opposition, EnerSys respectfully notes the following

First, Section 365 of the Bankruptcy Code permits assumption or rejection of ***executory*** contracts 11 U S.C § 365. It does not permit assumption or rejection of ***all*** contracts Since a basic tenet of statutory construction is that a statute should be construed so that effect is given to all of its provisions, so that no part will be inoperative or superfluous, void or insignificant unless the provision is the result of obvious mistake or error, *Silverman v Eastrich Multiple Investor Fund, L P*, 51 F3d 28, 31 (3d Cir. 1995), *Com of Pa Dept of Public Welfare v U S Dept of Health and Human Services*, 928 F2d 1378, 1385 (3d Cir 1991), the term "executory" must define a subset of all debtor contracts

The legislative history of Section 365 provides some help in creating that subset by stating that, generally, executory contracts are contracts in "which performance remains due ***to some extent on both sides***," S.R No 989, 95th Cong., 2d Sess. 58, *reprinted in* U.S Code Cong & Ad News 5787, 5844; H R Rep No 595, 95th Cong , 2d Sess. 347, *reprinted in* 1978 U S Code Cong. & Ad News 5787, 5963 & 6303 (emphasis supplied).

The Countryman Test lends meaning to the term "executory" within the constraints imposed by Congress *i e* , by limiting executory contracts to contracts with performance due on both sides and distinguishing within that universe between executory and non-executory contracts by reference to the quantum of performance remaining on both sides And the meaning ascribed by the Countryman Test to the term executory is supported by common sense By limiting the universe of executory contracts to those with

material obligations remaining on both sides, the Countryman Test ensures that only contracts with some threshold level of importance will be subject to the special powers of assumption and rejection

Second, the Countryman Test introduces a level of objectivity and consistency to distinguishing between executory contracts and non-executory contracts by reference to a well established body of federal bankruptcy law that has developed since the Countryman Test was first announced in 1973, including law in the seven circuits that have formally adopted the Countryman Test, and state contract law[12]

12 Exide attacks the Countryman Test on the basis that it could produce results that vary based on the law of the applicable state Pet at 22 However, Exide cites no examples of actual cases applying the Countryman Test and the materiality law of one state, in which the result would have been different had the law of a different state been applied In fact, the laws of the states are very consistent in defining material versus non-material contractual obligations, as evidenced by the fact that at least forty-three states have either adopted or cited with approval the five-factor test stated in Section 241 of the Restatement (Second) of Contracts or its predecessor, Section 275 Carl N Pickerill, *Executory Contracts Re-Revisited*, 83 AM BANKR L J 63, 84 n 128 (2009) (collecting cases) Further, Exide is incorrect in stating that the Court of Appeals Opinion is the first time the concept of substantial performance has been introduced into the materiality analysis Pet at 10, 11, 14, 19 In fact, numerous courts have considered substantial performance in their materiality analysis in applying the Countryman Test *See, e g , Vermont Plastics v Brine, Inc* , 79 F3d 272, 279 (2d Cir 1996), *In re Munple, Ltd* , 868 F2d 1129, 1130 (9th Cir 1989), *Royal Bank of Canada v Peneficial Financial Leasing Corp* , No 87 Civ 1056, 1992 U S Dist LEXIS 9496, *24-25 (S D N Y June 29, 1992), *Jacob & Youngs, Inc v Kent*, 129 N E 889, 891 (N Y 1921), *reh'g denied*, 130 N E 933 (N Y 1921), *see also Plaute v Jacobs*, 103 N W 2d 296, 298 (Wis 1960).

It should also be noted that Exide's professed concern that the Countryman Test has worked mischief in this case by saddling Exide with "onerous and burdensome" obligations extending into the future, Pet at 26, is belied by the facts Exide has no affirmative obligations that extend into the future Rather, it is required only to refrain from interfering with the exclusive, worldwide, perpetual, royalty-free license that it provided to EnerSys in 1991 and for which it was fully paid twenty years ago. Pet. App. 29a. That is not an "onerous" burden under anyone's definition In fact, in this case, the Countryman Test has not worked any mischief but, rather, has prevented an abuse by Exide of the Bankruptcy Code rejection powers

The Countryman Test has served the bankruptcy process in the United States well over the last thirty-eight years, as evidenced by its formal adoption in seven circuits and the fact that it has not been directly rejected by any federal court of appeals In the event the Petition is granted, EnerSys will address the merits of the Countryman Test in greater detail

CONCLUSION

The petition for a writ of *certiorari* should be denied

Respectfully submitted,

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IN THE

Supreme Court of the United States

IN RE: EXIDE TECHNOLOGIES,

Debtor.

EXIDE TECHNOLOGIES,

Petitioner,

v.

ENERSYS DELAWARE, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

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REPLY ARGUMENT

I. CONTRARY TO ENERSYS'S ARGUMENT, THERE IS A GENUINE CONFLICT OVER THE TEST USED TO DETERMINE WHETHER A CONTRACT IS EXECUTORY UNDER SECTION 365 OF THE BANKRUPTCY CODE.

A. The Sixth Circuit has Adopted, and Continues to Apply, the Functional Test.

The functional test is binding within the Sixth Circuit. Indeed, EnerSys does not dispute that the Sixth Circuit adopted that test. Opp. at 14-18. Nor could it. As Exide explained, the Sixth Circuit adopted the functional test in *In re Jolly*, 574 F.2d 349 (6th Cir. 1978), *cert. denied*, 439 U.S. 929 (1978), and reaffirmed its adherence to that test in *In re Becknell & Crace Coal Co.*, 761 F.2d 319 (6th Cir. 1985), *cert. denied sub nom.*, *Sloan* v. *Hicks*, 474 U.S. 1006 (1985). Pet. at 14-15.

Normally, a court of appeals must sit *en banc* to overrule a panel decision, but EnerSys contends that, in *In re Terrell*, 892 F.2d 469 (6th Cir. 1989), a three-judge panel somehow overruled *Jolly* and *Becknell*. Opp. at 15-16. The Sixth Circuit has never embraced EnerSys's reading of *Terrell*. Moreover, the only two lower-court cases cited by EnerSys that post-date *Becknell* appear unaware of that decision or the Sixth Circuit's more recent statement—again reaffirming the functional test—in *In re Magness*, 972 F.2d 689 (6th Cir. 1992). Opp. at 16 (citing *In re Ravenswood Apartments, Ltd.*, 338 B.R. 307, 311

(B.A.P. 6th Cir. 2006); *In re Nat'l Fin. Realty Trust*, 226 B.R. 586, 589 (Bankr. W.D. Ky. 1998)).

To be sure, *Terrell* stated that it was applying the material-breach test, but *Terrell* did not purport to overrule *Jolly* or *Becknell*, and, in fact, *Terrell* cited *Jolly* with approval. *Terrell*, 892 F.2d at 471-72. Moreover, lower courts within the Sixth Circuit have not struggled to reconcile *Terrell* with *Jolly* and *Becknell*. As one court explained: "The reason the *Terrell* court never undertook a functional analysis was because in that case, the [material-breach] test *alone* so clearly revealed the contracts in question were executory." *E.g.*, *Phar-Mor, Inc.* v. *Strouss Bldg. Assocs.*, 204 B.R. 948, 952 n.2 (N.D. Ohio 1997); *see In re KY USA Energy, Inc.*, 439 B.R. 413, 415 (Bankr. W.D. Ky. 2010) (following *Jolly* even after *Terrell*); *In re Monarch Tool & Mfg. Co.*, 114 B.R. 134, 136-37 (Bankr. S.D. Ohio 1990). In short, *Terrell* did not—and could not—overrule the Sixth Circuit's adoption of the functional test.

In any event, even after *Terrell*, the Sixth Circuit has described the material-breach test as "helpful but not controlling," and emphasized that the functional test governs whether a contract is executory. *Magness*, 972 F.2d at 694. EnerSys attempts to cast aside this statement as *dicta*, Opp. at 15, 18, but the Sixth Circuit has stated, unequivocally, that the functional test is the governing test within its jurisdiction, *Magness*, 972 F.2d at 694, and, importantly, the lower courts have followed that statement in cases like *Phar-Mor*, *KY*, and *Monarch*.

B. The Eleventh Circuit has Likewise Adopted, and Recently Stated Its Continued Approval of, the Functional Test.

EnerSys does not dispute that, following a decision in which the Eleventh Circuit recognized, in *dicta*, the virtues of the functional approach, *In re Martin Bros. Toolmakers, Inc.*, 796 F.2d 1435 (11th Cir. 1986), that court later adopted, in *In re General Development Corp.*, a district court opinion, which, in turn, adopted the functional test, 84 F.3d 1364 (11th Cir. 1996). Opp. at 19-20. EnerSys contends, however, that *General Development* is not binding on courts within the Eleventh Circuit because it was issued as a *per curiam* opinion, and because this Court has stated that "'the precedential effect of a summary affirmance can extend no farther than the precise issues presented and necessarily decided by those actions.'" Opp. at 19-20 (quoting *Ill. State Bd. of Election* v. *Socialist Workers*, 440 U.S. 173, 182 (1979)). These arguments are mistaken.

The Eleventh Circuit's decision in *General Development* is not a mere summary affirmance. Rather, the court of appeals affirmed "on the basis of the opinion of the district court," appended that opinion as an expression of its own view, and published that expression in a reported opinion. 84 F.3d at 1365; *cf.* Opp. at 19 (citing *Ill. State Bd. of Election*, 440 U.S. at 182, which dealt with an order that merely said, "judgment affirmed"). This Court has not hesitated to view such an opinion as a binding expression of the law within a particular circuit. *E.g.*, *Davis* v. *Scherer*, 468 U.S. 183, 189 (1984) (explaining that the "Court of Appeals affirmed on the basis of the

District Court's opinion," but the Supreme Court still "noted probable jurisdiction to consider whether the *Court of Appeals* properly" decided the case (emphasis added; citation omitted)).[1]

Nor does *General Development*'s issuance as a *per curiam* opinion detract from the binding effect of that decision's holding. EnerSys does not cite a single case holding that a *per curiam* opinion is any less binding. Instead, it quotes selectively from a Supreme Court opinion, Opp. at 20 (quoting *Edwards* v. *Carpenter*, 529 U.S. 446, 452 n.3 (2000)), without revealing that it was the respondent in that case who had argued that "*per curiam* opinions decided without the benefit of full briefing or oral argument are of little precedential effect," and without revealing that the Court never adopted this argument, *Edwards*, 529 U.S. at 452 n.3.

In any event, the Eleventh Circuit has recently explained that it "approved," albeit "tacitly," the functional test and described *General Development* as a "precedent." *Tompkins* v. *Lil' Joe Records, Inc.*, 476 F.3d 1294, 1305 n.13 (11th Cir. 2007). Moreover, with one exception, courts within the Eleventh Circuit likewise consider themselves bound by *General Development*. *E.g.*, *In re Surfside Resort & Suites, Inc.*, 344 B.R. 179, 186 (Bankr. S.D. Fla. 2006); *In re Transit Group, Inc.*, No. 01-br-12820, 2002 WL 31940797, at *3 (Bankr. M.D. Fla. Nov. 25, 2002); *In re Nix*, No. 96-br-42948, 1997 WL 33419263, at *4

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[1] *See also Hensley* v. *Eckerhart*, 461 U.S. 424, 429 (1983) (certiorari was granted to review a decision of the court of appeals "affirm[ing] on the basis of" a district court opinion); *accord Connick* v. *Myers*, 461 U.S. 138, 142 (1983).

(Bankr. S.D. Ga. Aug. 26, 1997). The only exception cited by EnerSys (Opp. at 21) is a lower court decision in which the bankruptcy court did not apprehend that, once the Eleventh Circuit adopted the district court's opinion in *General Development* as its own, the district court's predictive statement—that the Eleventh Circuit was likely to adopt the functional test—was no longer predictive, but rather, the functional test had become the law of the circuit, *see In re W.B. Care Ctr., LLC*, 419 B.R. 62, 70 (Bankr. S.D. Fla. 2009). There is no doubt that the Eleventh Circuit—like the Sixth—continues to adhere to the functional test, which is in conflict with the seven circuits that adhere to the material-breach (or Countryman) test. Pet. at 17-19.[2]

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[2] EnerSys argues that the Eleventh Circuit's functional test differs from that of the Sixth Circuit, because, in EnerSys's view, the Eleventh Circuit adopted a criticalness component. Opp. at 13-14. But that argument fails for two reasons. First, this Court has rejected any argument that requires a debtor to demonstrate that "reorganization will fail unless rejection is permitted." *NLRB* v. *Bildisco & Bildisco*, 465 U.S. 513, 524 (1984). Second, the Eleventh Circuit's statement—that rejection was "critical" to the debtor's reorganization—was descriptive, not a component of the test it adopted. *Gen. Dev.*, 84 F.3d at 1374. Indeed, the Eleventh Circuit adopted the Sixth Circuit's articulation of the functional test, and that articulation does not turn on whether rejection is "critical" to the debtor. *Id.* at 1375 (citing *Becknell*, 761 F.2d at 322).

II. RESPONDENT'S OPPOSITION DOES NOT UNDERMINE THE IMPORTANCE OF THE QUESTION PRESENTED HEREIN.

A. The Question of Which Test Applies—the Functional or Material-Breach Test—is Meaningful and Important to the Rehabilitation of Debtors and to Creditors at Large.

EnerSys argues that the difference between the functional and material-breach tests is not important because, in cases where there is a material breach, the result would be the same under either test. Opp. at 24-28. This argument is as unconvincing as it is mistaken. The difference between which test applies is meaningful and important to the rehabilitation of the debtor and to the interests of creditors at large, even if there is some overlap between the tests.

The functional test unquestionably matters in every case where one party's nonperformance would not excuse the other's, and the question whether a breach is material is a frequently litigated issue. Those facts alone demonstrate that nonperformance under a contract will often fall short of constituting a material breach, and therefore, the contract will be subject to rejection or assumption only if the functional test is deemed to apply. And because the question of which contracts are executory is a recurring one, and often involves commercial contracts that could be valued at tens of millions of dollars, the

difference between which test applies is likely in the order of billions of dollars.[3]

Moreover, under EnerSys's view, if a contract is not executory, and therefore not subject to rejection, then the beneficiary of that contract is entitled to the full value of the estate's performance. Such a holding would have a profound effect on any remaining creditors, because they will be forced to bear the full cost of the debtor's continued performance. Indeed, EnerSys is effectively arguing that, unlike other unsecured creditors, it should be entitled to the full amount the debtor owes to it, rather than its *pro rata* share of the debtor's bankruptcy estate. *Cf. Bildisco*, 465 U.S. at 531 ("Damages on the contract that result from the rejection of an executory contract . . . must be administered through bankruptcy and receive the priority provided general unsecured creditors.").

Finally, in a misguided effort to demonstrate that the differences between the tests are meaningless, EnerSys goes so far as to argue that rejection is, itself, meaningless. Opp. at 28-29. But this argument is based on a fundamental misunderstanding of the rejection power, which constitutes a pre-petition

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[3] The frequency with which an issue is discussed in reported bankruptcy decisions does not necessarily reflect the importance of that issue, because only one in 1580 bankruptcy cases generates an appeal. Troy McKenzie, *Judicial Independence, Autonomy, and the Bankruptcy Courts*, 62 Stan. L. Rev. 747, 783 (2010). Moreover, because negotiation remains the "lifeblood" of bankruptcy, rules that are not frequently reviewed can still have a profound effect on the settled expectations of parties in bankruptcy. *Id.* at 784.

breach, and, in combination with discharge, converts the damages associated with that breach into a "claim," 11 U.S.C. § 101(5), generally precludes the creditor from seeking specific performance, *id.* § 101(5)(B); *Ohio* v. *Kovaks*, 469 U.S. 274, 278-79 (1985), and relieves the debtor of its performance obligation upon confirmation of the plan, *Bildisco*, 465 U.S. at 532 ("the filing of the petition in bankruptcy means that the collective-bargaining agreement is no longer immediately enforceable, and may never be enforceable again," because that agreement was subject to rejection as an executory contract).

B. The Material-Breach Test is Inconsistent with Congressional Intent and Turns on an Arbitrary State-Law Distinction Divorced from the Purposes of the Bankruptcy Code.

EnerSys also argues that the rigid, material-breach test is somehow consistent with the text, history, and purposes of the Bankruptcy Code, Opp. at 32-34, but its argument is devoid of any meaningful analysis. Specifically, EnerSys argues that because the text of the statute limits rejection and assumption to *executory* contracts, and because Congress indicated that "executory" contracts "generally include[] contracts on which performance remains due *to some extent* by both parties," S. Rep. No. 95-989, at 58 (1978), *reprinted in* 1978 U.S.C.C.A.N. 5787, 5844 (emphasis added), Congress somehow expressed its intent to adopt the material-breach test over the more flexible, functional test, Opp. at 33. But the text itself expresses no preference between tests, and the legislative history disavows any approach that

purports to offer a "precise definition of what contracts are executory." S. Rep. No. 95-989, at 58, *reprinted in* 1978 U.S.C.C.A.N. at 5844.

Moreover, EnerSys does not explain how the rigid, material-breach test promotes any of the basic purposes of the Bankruptcy Code—to provide bankruptcy courts with flexibility, to rehabilitate the debtor, and to ensure uniform treatment of similarly-situated creditors. That is because the material-breach test promotes none of these purposes. It strips bankruptcy courts of needed flexibility. *Cf. Bildisco*, 465 U.S. at 525 (rejecting an approach because it was "fundamentally at odds with the policies of flexibility and equity built into Chapter 11 of the Bankruptcy Code"). It prevents debtors from shedding burdensome obligations simply because the nonperformance of those obligations would not excuse the other party's performance. *Cf. id.* at 527 (the ultimate "policy of Chapter 11 is to permit successful rehabilitation of debtors"). And it treats similarly-situated creditors differently, because, under the material-breach test, a variable state-law standard determines which contracts can be rejected (Pet. at 22-24) and, therefore, which creditors are relegated to "the priority provided general unsecured creditors." *Bildisco*, 465 U.S. at 531.

EnerSys also argues that the material-breach test introduces "objectivity and consistency," Opp. at 34, but EnerSys ignores the widespread difficulty and disparity that even its own cases have recognized in applying that test. *Terrell*, 892 F.2d at 472 n.6 (differences in state law produced disparate outcomes for similar contracts); *In re Kane*, 248 B.R. 216, 223

(B.A.P. 1st Cir. 2000) (courts have "struggled with the specific issue of whether installment land sales contracts are executory" under the material-breach test, and "a split of authority has developed"); *Nat'l Fin. Realty Trust*, 226 B.R. at 589 (option agreements have "puzzled" and divided courts); *In re Cardinal Indus., Inc.*, 146 B.R. 720, 725 (Bankr. S.D. Ohio 1992) (describing the caselaw as "a hopelessly convoluted and contradictory jurisprudence").

III. RESPONDENT'S VEHICLE ARGUMENTS ARE UNAVAILING.

A. Exide has Consistently Claimed that the Contract at Issue is Executory and Therefore has Not Waived any Argument in Support of that Claim.

EnerSys's waiver argument is meritless. Opp. at 10-11. Importantly, EnerSys does not dispute that, at each stage below, Exide consistently claimed that the contract at issue in this case is executory. Under a litany of Supreme Court cases, because Exide consistently claimed that the contract is executory, it is allowed to "make any argument in support of that claim; [it is] not limited to the precise arguments [it] made below." *Citizens United* v. *Fed. Election Comm'n*, 130 S. Ct. 876, 893 (2010) (brackets and quotation marks omitted); *accord Harris Trust & Sav. Bank* v. *Salomon Smith Barney, Inc.*, 530 U.S. 238, 245 n.2 (2000); *Lebron* v. *Nat'l R.R. Passenger*

Corp., 513 U.S. 374, 379 (1995). EnerSys's cases are readily distinguishable. Opp. at 11.[4]

B. A Related Proceeding in the Bankruptcy Court Does Not Obviate the Need for this Court to Resolve the Question Presented Herein.

EnerSys also argues that a related proceeding could obviate the need for this Court to resolve the question presented here, rendering this case a "poor vehicle." Opp. at 30-31. Specifically, EnerSys argues that, because Exide needed to seek a declaration of the parties' rights under the plan confirmed by the Bankruptcy Court, that declaration could obviate the need for this Court to resolve "whether the Agreements [at issue here] are executory." *Id.* at 31. This argument should be rejected.

EnerSys's supposed vehicle problem would exist in any bankruptcy case in which a court has held that an agreement is not executory and therefore not subject to rejection. As a result, this case is as effective a vehicle as any other case in which a debtor

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[4] *E.g.*, *Granite Rock Co.* v. *Int'l Bhd. Of Teamsters*, 130 S. Ct. 2847, 2861 & n.14 (2010) (argument waived because *respondent* failed to raise it in opposition to the petition for a writ of certiorari (citing S. Ct. R. 15.2)); *United States* v. *Alvarez-Sanchez*, 511 U.S. 350, 360 n.5 (1994) (new Fourth Amendment claim waived because respondent only pressed a Fifth Amendment claim below); *Taylor* v. *Freeland & Kronz*, 503 U.S. 638, 645-46 (1992) (argument waived that was raised by petitioner "for the first time in his opening brief," because it was not "'fairly included'" in the questions presented in the petition, and because it would have "change[d] the substance of th[os]e questions'" (quoting S. Ct. R. 14.1(a), 24.1(a))).

seeks to reject a contract. In fact, because this case turns on which test applies, Pet. at 26-27, it is actually better than other cases at presenting the issue in conflict.[5]

Moreover, bankruptcy tends to discourage appellate review, because few debtors survive Chapter 11, and because fewer still have the time or the resources to pursue prolonged litigation. McKenzie, *supra* note 3, at 782. Forcing Exide to seek a post-confirmation declaration, rather than review in this Court, is not an equivalent remedy because it undermines Congress's "intention that business reorganizations should be quicker and more efficient and provide greater protection to the debtor, creditors, and the public interest." *Bildisco*, 465 U.S. at 517 n.1. This Court should resolve the issue in conflict now.

C. There is No Viable Alternative Ground for Affirmance.

Finally, EnerSys briefly argues that this case is a poor vehicle because section 365(n) provides an alternative basis for affirmance. Opp. at 29 & n.11, 32. However, as Exide explained, section 365(n) does not apply here, because it does not reach trademarks, trade names, and other propriety marks. Pet. at 27-28. It therefore provides no alternative basis for affirmance.

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[5] The contract at issue imposes obligations on both parties, and the obligations that it imposes on the estate are onerous and burdensome—particularly Exide's obligation to refrain from using a trademark bearing its own name in connection with a major segment of its business. Pet. App. 34a-35a, 44a-53a.

CONCLUSION

For the foregoing reasons and those stated in the petition for a writ of certiorari, the petition should be granted.

Respectfully submitted.

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